

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Third Regular Session**

Rome, 20–24 October 2003

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda items 4 & 5



Distribution: GENERAL

WFP/EB.3/2003/[4-A,5(A,B,C,D)]/3

13 October 2003

ORIGINAL: ENGLISH

REPORT OF THE FAO FINANCE COMMITTEE

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

- Strategic Plan (2004–2007) (WFP/EB.3/2003/4-A/1);
- WFP Biennial Management Plan (2004–2005) (WFP/EB.3/2003/5-A/1);
- Report of the External Auditor on the Review of WFP's Human Resources Strategy (WFP/EB.3/2003/5-B/1);
- Second Progress Report on the Implementation of Recommendations in the 2000–2001 Audit Report of the External Auditor (WFP/EB.3/2003/5-C/1); and
- Best Practices in Oversight Mechanisms (WFP/EB.3/2003/5-D/1).

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

CL 125/11

October 2003



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

E

COUNCIL

Hundred and Twenty-fifth session

Rome, 26 – 28 November 2003

Report of the Hundred and fifth Session of the Finance Committee

Rome, 6 – 7 October 2003

Table of Contents

	Paragraphs
Introduction	1 - 3
Strategic Plan (2004–2007) (doc. WFP/EB.3/2003/4-A/1)	4 - 9
WFP Biennial Management Plan (2004–2005) (doc. WFP/EB.3/2003/5-A/1)	10 - 30
Report of the External Auditor on the Review of the WFP's Human Resources Strategy (doc. WFP/EB.3/2003/5-B/1)	31 - 33
Second Progress Report on the Implementation of the Recommendations in the 2000-2001 Audit Report of the External Auditor (doc. WFP/EB.3/2003/5-C/1)	34 - 37
Best Practices in Oversight Mechanisms (doc. WFP/EB.3/2003/5-D/1)	38 - 40
Date and Place of the Hundred and Sixth Session	41

For reasons of economy, this document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies, unless strictly indispensable.
Most FAO meeting documents are available on Internet at www.fao.org

W0000



REPORT OF THE HUNDRED AND FIFTH SESSION OF THE FINANCE COMMITTEE

6 – 7 October 2003

Introduction

1. The Finance Committee submitted to the Council the following report of its Hundred and fifth Session.
2. The following representatives were present:

Vice-Chairperson:	Mr Anthony Beattie (United Kingdom)
Members:	Mr Antonio A. Plaza Jiménez (Chile)
	Ms Lamy Al-Saqqaf (Kuwait)
	Ms Ryuko Inoue (Japan)
	Mr Alassane Wele (Senegal)
	Mr Lothar Caviezel (Switzerland)
	Ms Perpetua M. S. Hingi (United Republic of Tanzania)
	Mr J. Michael Cleverley (United States of America)
3. The Vice-Chairperson informed the Committee that Mr Humberto Molina Reyes (Chile), Chairperson of the Finance Committee, would regretfully be unable to attend the session. The Committee noted that the Vice-Chairperson would act as Chairperson for this session and that Mr Antonio A. Plaza Jiménez had been designated to represent Chile in the absence of Mr Molina Reyes. The Committee further noted that Mr Muhammad Saleem Khan was unable to attend the session and that Pakistan was not represented at the session.

Strategic Plan (2004–2007) (doc. WFP/EB.3/2003/4-A/1)

4. The secretariat introduced the document WFP/EB.3/2003/4-A/1, highlighting that this was the first time that the Strategic Plan, one of the new governance tools introduced by the WFP Executive Board in 2000, was before the Finance Committee in its present format.
5. The secretariat explained the methodology of using “SWOT” (Strengths, Weaknesses, Opportunities and Threats) analysis to help determine the organization's strategy and priorities.
6. The secretariat highlighted the five strategic priorities and their contribution to the United Nations Millennium Development Goals (MDGs), and explained the nine management priorities that addressed the weaknesses in the SWOT analysis.
7. The Chairperson explained that Section V of the document was still under discussion and he outlined the consultation process being followed by WFP Executive Board members and the secretariat in the interest of reaching consensus prior to the Executive Board meeting scheduled for October 2003.



8. The Committee discussed the question of WFP's country presence, raised in paragraph 65 of the document. It was suggested that regional offices might well be adequate in some instances. The secretariat explained that WFP presence did not mean a full country office in all cases, that the role of regional offices was certainly important, and that in some instances a reduced country presence could be foreseen. The secretariat stressed the importance of local knowledge and presence to maintain a state of readiness and cited a few examples of WFP offices having to be reopened within a short time of closure. Had a minimum presence been maintained in these cases, the reopenings would have been easier.

9. The Committee concluded as follows:

- a) The new-style Strategic Plan was an excellent response to the requirement in the Governance Project that WFP should overhaul its approach to corporate planning.
- b) The SWOT analysis was a useful diagnostic tool for addressing the situation facing WFP.
- c) The discussions of strategic priorities (what WFP would deliver) and management priorities (what WFP would do to strengthen its institutional capacity) were well-considered and convincing.
- d) The performance matrix was key to the results-based management (RBM) approach, a fundamental building block of the Strategic Plan, as recommended by the Governance Project.
- e) The priority accorded to risk management was entirely appropriate.
- f) The projection of resources on a needs-driven basis was an important new departure.

WFP Biennial Management Plan (2004–2005)
(doc. WFP/EB.3/2003/5-A/1)

10. The secretariat introduced the document WFP/EB.3/2003/5-A/1, highlighting the rationale of a needs-driven budget and the clear links to the priorities and weaknesses as articulated in the Strategic Plan. The proposed 2004/2005 budget reviewed by the Committee is summarized below:

	2004/2005
Food delivered (million mt)	8,967
Operational costs (US\$ million)	3,901
Support costs (US\$ million)	883
Total budget (US\$ million)	4,784
Indirect support costs (ISC) rate (%)	7.0

11. The projected operational costs of US\$3.9 billion are based on approved projects and programmes and the corresponding US\$883 million in support costs were put into historical context against previous biennia. The secretariat stressed the need to "repair" some of the stress on the organization caused by the extremely high 2003 emergency workload and that some of the new capacity budgeted for 2004/2005 should have been put in place in 2003.



12. The secretariat gave a breakdown of the various elements that formed the WFP budget, totaling US\$4.8 billion for the biennium, and highlighted those areas that would require Board action and approval, which included US\$305 million in programme support and administrative (PSA) costs financed by a 7.0-percent ISC rate, US\$39 million in one-time PSA costs to be funded from the General Fund, and US\$41 million in potential exchange rate variances to be funded from the PSA Equalization Account.

13. The secretariat also gave an account of the projected position and balances of the General Fund and PSA Equalization Account, stating that at the end of the 2004–2005 biennium there would be positive balances (aggregating approximately US\$70 million for the two funds, based on the 2004–2005 budget assumptions), and stressing the very healthy balance sheet position WFP would find itself in at the end of current biennium (with a projected balance of US\$32.7 million for the General Fund and US\$150 million for the PSA Equalization Account).

14. The secretariat explained the contingency actions that WFP would/could follow in the event that resource projections and corresponding income did not materialize over the course of the coming biennium.

15. The secretariat responded as follows to questions and comments from the Committee:

The Current PSA and Future ISC Rate

16. The current biennium PSA budget was running at US\$231 million (US\$102 million for 2002 and US\$129 million for 2003, including an additional US\$31 million for 2003 recently allotted following the higher than expected level of operations). The secretariat believed that a considerable level of PSA activity had to be deferred within the current biennium due to the large-scale emergencies requiring response, especially Iraq. Had this been implemented, the resulting PSA expenditure would have been on the order of US\$150 million per year, bringing the biennium budget to about US\$300 million. However, the 2002–2003 PSA levels were kept low, for the reasons mentioned, resulting in a very healthy balance in the PSA Equalization Account.

17. The secretariat advised that in its meeting with the Advisory Committee on Administrative and Budgetary Questions (ACABQ), that committee had stated that in their opinion much of the capacity-building and other one-time costs were of PSA in nature.

18. The future Indirect Support Cost (ISC) rate was put at 7.0 percent. This could have been lower, and more use could have been made of the General Fund and/or PSA Equalization Account. The ISC rate could also have been lower if WFP did not implement all its capacity-building requirements. The rate could have been higher and less use could have been made of the General Fund and/or PSA Equalization Account. But the secretariat believed that the 7-percent ISC rate was a good middle-of-the-road solution. This rate would leave adequate balance sheet reserves and yet at the same time would be acceptable to donors, many of whom felt that a rate higher than 7.0 percent would not be acceptable.

19. On the subject of multiple rates, the secretariat noted that the current practice of a single rate had been followed since implementation of the revised resource and long-term financing (R<F) policies. WFP had experienced multiple rates earlier, and it was felt that this was not in the interest of the organization and that administering them was cumbersome and inefficient. The secretariat pointed out that the view of the ACABQ was that a single rate was preferable to additional or varying rates as this would be more cost effective.



Capacity-building and One-time Initiatives

20. Details of these costs were provided in the Management Plan on pages 37 through 61, in particular Tables 30, 46, 47 and 48. Further details could readily be provided on a bilateral basis to interested members.

Links between the Management Plan and Strategic Plan and Resource Projections

21. The Management Plan had been prepared at the same time as the Strategic Plan, which was still under discussion particularly in the area of the focus of resources. The Management Plan was exactly that: a plan. Budget allocations, particularly in programme areas, would be brought in line once the Strategic Plan had been finalized and allotments, particularly in programme areas, would be dependent on contributions. One of the capacities added under capacity-building was expenditure forecasting.

22. Addressing the issue of resource projections and dependency on too few donors, the secretariat pointed out that the new Fund Raising and Communications Department had as one of its initiatives to expand the donor base through emerging donors and the private sector.

Further Efficiency Gains

23. In line with the results-focused approach of the Management Plan, the offices of Budget and Results-Based Management would together identify efficiency gains for the future.

Security Budgets

24. There were three elements of security costs in the Management Plan:
(i) US\$15 million for the United Nations Security Coordinator (UNSECOORD) was to cover the WFP share of security services provided by that joint United Nations body based on a head count in the field; the WFP share was high as the assessment was made at the height of the Iraq crisis when the number of WFP staff in the field was at a record level. (ii) An additional US\$10 million (to be increased to US\$20 million) was foreseen for upgrading security at WFP premises in countries of high and medium risk following the 19 August bombing in Baghdad. (iii) The third element comprised the regular security aspects covered under programme costs in countries of operations.

Use of Interest Income

25. Interest earned accrued to the General Fund and could be used only with Board approval.

“What-if” Scenarios

26. All managers had been instructed to plan for a 10-percent contingency reduction in budgets and to be in a position to adjust their work plans and budgets accordingly. A similar exercise had been carried out successfully at the end of 2002, in line with the reduction of the ISC rate from 7.8 to 7.0 percent. On the growth side, the secretariat noted that the flexibility to expand had been demonstrated in the current biennium during which WFP's turnover was estimated to a total of US\$5.8 billion, which was US\$1.0 billion higher than the proposed 2004–2005 budget. On the subject of what would happen if WFP were to get more resources, the secretariat pointed out that the WFP Executive Director strongly believed in investing in



the education of the next generation as the best strategy to achieve the MDGs, so wherever possible additional resources would be targeted to school feeding, among other initiatives.

Zero-Based Budget Approach: Lessons Learned

27. The secretariat briefed the Committee on the approach followed for the Zero-Based Budget (ZBB) exercise in preparing the Management Plan. On lessons learned, the secretariat noted that the first and main lesson was that it would take more than one cycle of the budget to get it right. The change to ZBB involved a change in the organizational culture, and it was felt that it would be difficult to shed the habit of incremental budgeting. It was important to have senior management involvement and commitment. The stated position of the Executive Director was felt to be key in this regard. The initiative was largely successful due to the information-sharing process carried out through intensive workshops, training sessions and field visits, and with help desk facility throughout the process. The exercise proved to be very time consuming and quite difficult, but the buy-in of budget owners and a clearer understanding of budget elements at the cost-unit level made it worthwhile. The result was a Management Plan and consequent budget that was activity and results focused, with each activity having a cost and a relevant priority. This provided WFP senior management with a tool for monitoring costs against results delivered.

Consequences for Reporting

28. Similar new-style reporting would follow as a result of the work on the Management Plan. The secretariat drew the Committee's attention to the section on "Results", pages 71 to 141 of the Plan. The results and indicators had been developed with the Results Based Management (RBM) Division; these would constitute the starting point against which performance would be measured and reported on. The secretariat further pointed out that the Annual Performance Report for 2003, to be submitted in May 2004, would be the pro forma for future such reports. However, that report would not be able to measure performance in the same way as expected for future reports. It was also pointed out that internal monthly reporting at the level of the balance sheet and operating statement had already been introduced.

29. The Committee welcomed the new-style Management Plan and decided to draw the following points to the attention of the Executive Board:

- a) The document was a good response to Executive Board governance requests.
- b) As with the Strategic Plan, the new basis for financial projections represented an important departure.
- c) The two documents should be more closely integrated, particularly once the Strategic Plan was adopted.
- d) The proposals in the Management Plan were based to an important extent on the current unusually strong financial position.
- e) The zero-based budgeting approach in many respects had proved valuable, and useful lessons had been learned from applying it for the first time in WFP.
- f) The sensitivity analysis, which had been presented to the Committee and would be presented to the Executive Board, was important and deserved careful study and reflection.
- g) The proposal that all organizational units should have results and performance indicators was a major step forward in enhancing the Programme's effectiveness and efficiency.
- h) The internal monthly financial reporting already introduced was an important step in improving financial management.



- i) A proposed format for the Annual Performance Report — another Governance Project recommendation — would go to the Executive Board in May 2004.

30. One member of the Committee expressed reservations about the Management Plan, in particular that its budget proposals for 2004–2005 needed to be scrutinized as to whether they were realistic and appropriate.

Report of the External Auditor on the Review of the WFP's Human Resources Strategy (doc. WFP/EB.3/2003/5-B/1)

31. In introducing the report, the External Auditor noted that this was the first output from the Programme of Work discussed with the Executive Board in February 2003.

32. The following points emerged in the Committee's discussion of the paper:

1. The secretariat welcomed and agreed with the five recommendations and indicated that the following actions were in hand to implement them:
 - a) development of a system to track national staff head/counts and costs in a more timely basis;
 - b) quantification of the incremental costs for the Human Resources Strategy had been estimated and included in the 2004–2005 Management Plan and would be verified at the year's end once the competency study was finalized;
 - c) monitoring of the new part-time roles for the Staffing Coordinators to ascertain whether or not these needed to become full-time responsibilities in the larger organization;
 - d) the electronic tools included in the Human Resources module of WINGS had been budgeted for implementation in 2004; and
 - e) completion of a newly designed performance appraisal system by the year's end.
2. The Human Resources Strategy reviewed by the External Auditor related only to international staff (some 15 percent of the total staffing of 9,852). The secretariat planned to carry out further work with relation to national and contract staff in 2004.
3. The category "Other staff" in the table following paragraph 39 of the report comprised staff holding a variety of types of contracts, details of which were provided to the Committee.
4. The audit review had concentrated on assessing the newly developed Human Resources Strategy, drawing on the External Auditor's own experience with human resources management in other organizations. It was not intended, at this early stage, to examine WFP's competitiveness as an employer.
5. The suggestion in paragraph 6 of the paper that WFP should in due course consider more flexible arrangements for staffing might increase the risk of loss of corporate memory in the event of staff reductions. However, WFP was a unique organization operating in difficult circumstances, and the Programme's staffing requirements and patterns were not readily comparable with those of other organizations.

33. The Committee concluded that this was a valuable and high-quality report on an important subject. It noted that the External Auditor would return to the subject in his report on the biennium and that the Executive Board would be tracking progress on Human Resource policy and management issues as it monitored the implementation of the Biennial Management Plan.



Second Progress Report on the Implementation of the Recommendations in the 2000-2001 Audit Report of the External Auditor (doc. WFP/EB.3/2003/5-C/1)

34. In introducing the report, the Chairperson drew attention to the summary table in paragraph 2, which set out the recommendations in a matrix showing the relative priority and timelines for implementation. He noted that all recommendations were expected to be completed by the end of 2003.

35. The External Auditor welcomed the practice of regular reporting to the Executive Board on the follow-up of audit recommendations. His report at the end of the biennium would contain a formal review of the implementation of previous recommendations.

36. At the Committee's request the secretariat outlined the action being taken on the four recommendations classified as fundamental and on which implementation was in progress.

37. The Committee noted with satisfaction the substantial amount of work already undertaken on the recommendations and the timetable for completing the actions outstanding.

Best Practices in Oversight Mechanisms (doc. WFP/EB.3/2003/5-D/1)

38. Following a short introduction by the Chairperson, the secretariat explained that the paper was an exploratory one, as requested by the Executive Board in October 2002. It reviewed current thinking on oversight in the public and private sectors, particularly in the light of recent corporate scandals, and identified four main themes for consideration by WFP: codes of conduct, reporting, internal oversight committees, and risk management. The intention was to use the paper to sound out thinking, following which the Executive Director would consider how to proceed.

39. The External Auditor welcomed the paper as a valuable platform for discussion and action. He would be following the progress of the discussions closely, among other reasons because of the work he had ongoing on corporate governance in WFP. On specific points in the paper, he noted that the United Nations system organizations had thus far made disappointing progress in establishing audit committees; that risk management was a vitally important issue, but should be framed in terms of business risk rather than simply financial risk; and that the successful development of risk-management strategies depended crucially on the support and active involvement of top management.

40. Following a review and discussion of the four themes in the paper, the Committee concluded as follows:

- a) The four themes were indeed the top priorities for action in WFP, with risk management as the most important.
- b) **Codes of conduct:** The Committee had nothing to add.
- c) **Reporting:** The issuing of an annual statement on internal control by the chief executive was now regarded as emerging best practice. The Committee encouraged the Executive Director to put in place mechanisms to support him in issuing such a statement.
- d) **Internal oversight committees:** The Committee endorsed the idea of reviewing the scope, membership, training requirements, reporting, and other elements of the current audit committee.



- e) **Risk management:** The Committee looked forward to the interim report to be presented to the Executive Board in October 2004, and to the finalization of a risk-management policy and an associated action plan by the end of the 2004(2005 biennium. It noted that, as with the analysis of Strengths, Weaknesses, Opportunities and Threats in the Strategic Plan, the involvement of the Executive Board in the analysis and development of a risk-management strategy would be an important element in strengthening the Board's grasp of the strategic issues facing WFP.

Date and Place of the Hundred and Sixth Session

41. The Committee was informed that the 106th Session was tentatively scheduled to be held in Rome from 10 to 14 May 2004. The final dates of the session would be decided in consultation with the Chairperson.

