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**Executive Board
Third Regular Session**

Rome, 21–25 October 2002

FINANCIAL AND BUDGETARY MATTERS

Agenda item 5

For consideration

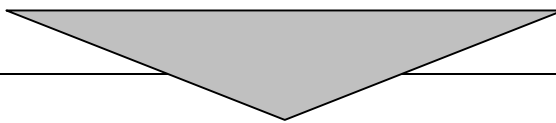
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Distribution: GENERAL
WFP/EB.3/2002/5-E/1
3 September 2002
ORIGINAL: ENGLISH

FINAL REPORT ON BALANCES OF PROJECTS CLOSED PRIOR TO 2001 AND MIGRATED TO WINGS

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Note to the Executive Board



This document is submitted for consideration to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Director, Finance Services (FS): Mr S. Sharma tel.: 066513-2700

Chief, Contribution and Projects (FSC): Mr E. Whiting tel.: 066513-2701

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



Executive Summary



This document is a final report on the analysis of financial balances (as at 30 June 2002) of closed projects migrated to WINGS in January 2001. A preliminary report on the financial balances (as at 31 December 2001) of these projects was presented to the Executive Board at its First Regular Session of 2002 (WFP/EB.1/2002/4-B/1). This document describes the action taken to date to produce this final report and to set out the next steps that the Secretariat will undertake to fully clear these balances.

As indicated in the preliminary report, a more proactive process was implemented of closing projects that were migrated as ongoing projects but with completion dates in 1999, 2000 and 2001. The outcome of this and the next steps to be taken are set out in this paper.

In future, the Board will be informed of the final outcome of the completion of these exercises in a report that will consolidate all financial issues that remain outstanding after the Board's meeting in October 2002.

Draft Decision



The Board:

- takes note of the document and expresses its appreciation for the extensive work done by the Secretariat to complete the review and establish the net financial balances of closed projects migrated to WINGS in January 2001;
- takes note of the immediate steps taken by the Secretariat to facilitate operational and financial project closures, particularly those with completion end dates in 1999, 2000 and 2001; these should be done in an expeditious manner, including consultations with the relevant donors on the proper disposition of the financial balances of these projects; and
- requests the Secretariat to submit the final outcome of these exercises to the Board in a consolidated financial management report at its Annual Session and to provide information on how these funds were reprogrammed or refunded after consultations with donors.



INTRODUCTION

1. At the First Regular Session of the Board in February 2002, a preliminary report was submitted regarding the balances of projects closed prior to 2001 that were migrated to WINGS in January 2001 (WFP/EB.1/2002/4-B/1). The preliminary report described the life cycle of contributions, income and expenditures and explained how the financial balances of the closed projects were determined. As explained during the Board meeting in February, the preliminary report was only a snapshot of these project balances because analysis and further clearing of the accounts were ongoing.
2. The preliminary report presented a disaggregation of these financial balances, distinguishing between those that were still **receivables** (confirmed contributions where cash had not yet been received) and **cash balances** that were with WFP. These financial balances were further desegregated into receivables (positive and negative) and cash (surplus and deficit).
3. In this final report, the same approach is followed in order to present the financial status of these projects more clearly. For the purposes of this final report, the balances are also presented by donor groups in order to indicate specific actions that were or are being taken to determine their proper disposition.
4. Significant progress has been achieved in the analysis of these balances since the Board meeting in February 2002. The present document:
 - sets out the result of the analysis with a snapshot of the balances as at 30 June 2002;
 - describes the actions taken to arrive at this situation; and
 - describes the remaining steps to complete clearing or disposition.
5. As indicated in the February 2002 preliminary report, the Secretariat assured the Board that this situation would not recur. An exhaustive review of all open projects that were migrated to WINGS in January 2001 was conducted using the information and new tools in WINGS. It focused on those with completion dates in 1999, 2000 and 2001 in order to determine their operational and financial status and to expedite closure procedures.
6. The preliminary outcome of this review is also presented in this document. It shows the financial balances as at 8 July 2002 and describes the concrete steps being taken to close them and promptly to inform donors of any balances.
7. Definitions of the terms used in this paper are provided in the annex.

Status in February 2002—Preliminary Report

8. The preliminary report was based on the latest balances of accounts that could be derived from WINGS. At that time the balances were the following:
 - balances of cash that were in the treasury clearing account and that had to be analysed and attributed to the funds of the relevant projects;
 - some income and expenditures accounts that were not yet final because the recording of contributions in-kind and related direct and other operating costs (which are taken up as receivables and subsequently paid in cash by the donors) had not been fully accounted for; and
 - the balances of closed projects or special operations (SO) projects that were not yet included.



9. Since February, much progress has been made. The balances of donor contributions (receivables and/or cash) as at 31 December 2001 are presented in Tables 1, 2 and 3 in order to give a clearer picture of the changes between December 2001 and June 2002. The tables show the financial situation as at 31 December 2001, the changes and the situation as at 30 June 2002.

Current Status (as at 30 June 2002)

10. The financial balances are presented three ways:
- Table 1 presents the status of receivables and cash contributions at the aggregate level; Table 2 disaggregates the financial balances at the income and expenditure levels by project.; and
 - Table 3 disaggregates the financial balances by donor group, based on the status of their balances.

**TABLE 1: NET AGGREGATE FINANCIAL BALANCES OF CLOSED PROJECTS
(US\$ million)**

	Balances as at 31 Dec. 2001	Balances as at 30 June 2002	Change
1. Confirmed contributions	1 831.16	1 807.57	-23.59
2. Income received	1 661.42	1 736.99	+75.57
3. Receivable balance	169.74	70.58	-99.16
4. Income received	1 661.42	1 736.99	+75.57
5. Expenditures paid	1 628.41	1 690.30	+61.89
6. Cash balance	33.01	46.69	+13.68
7. Net aggregate financial balance	202.75	117.27	-85.48

11. **The aggregate net financial balances**, amounting to US\$202.75 million at 31 December 2001 and US\$117.27 million at 30 June 2002, are made up of two components:
- The first component represents the **balance of receivables**, US\$169.74 million at 31 December 2001 and US\$70.58 million at 30 June 2002 (line 3).
 - The second component is the **cash balance**, US\$33.01 million at 31 December 2001 and US\$46.69 million at 30 June 2002 (line 6).
12. The decrease in confirmed contributions (line 1) of US\$23.59 million resulted from the following actions:
- adjustments to contributions of US\$82.45 million resulting from net write-down of receivables that were in excess of actual expenditures and for which no further contribution income is required; and
 - inclusion of closed projects for special operations with total confirmed contributions of US\$58.86 million that were not in the preliminary report.



13. The net increase in the amount of cash received (lines 2 and 4) resulted from:
 - recording of contributions that were received subsequent to the preliminary report;
 - clearing of the treasury clearing account by attributing the cash income to the relevant project funds;
 - re-attribution of cash credited to other projects funded by the same donor contribution;
 - inclusion of income on closed projects for SO projects; and
 - cash surpluses already reprogrammed or refunded.
14. These adjustments resulted in a **net receivable balance of US\$70.58 million** as at 30 June 2002 (line 3). This represents a net decrease of US\$99.16 million in receivables from the time of the preliminary report. These receivable balances need to be either collected, adjusted against donor cash balances or analysed for the attribution of cash contributions by the same donor previously recorded in other projects.
15. The above adjustments, reprogramming and refunds resulted in a net increase in contribution income of US\$75.57 million, from US\$1,661.42 million in December 2001 to US\$1,736.99 million in June 2002.
16. The increase in actual expenditures (line 5) of US\$61.89 million resulted from:
 - inclusion of US\$58.34 million of expenditures for closed projects on SOs and other closed project expenditures that were not included in the preliminary report; and
 - adjustment for the recording of ISC expenditure of US\$3.50 million associated with the closed projects.
17. In summary, the net aggregate financial balance of these projects (line 7) as at 30 June 2002 consists of receivables of US\$70.58 million and a net cash surplus of US\$46.69 million. This **cash surplus of US\$46.69 million** is immediately available for reprogramming or refunding.
18. In cases where donors' balances were considered final, the Secretariat, in accordance with Board decisions and recommendations, initiated consultations with them on the appropriate disposition (reprogramming or refund) of these balances, particularly those with cash surpluses.
19. Another way of presenting the net aggregate financial balances is by disaggregating them by project (income and expenditure levels) and showing the status of the receivables and of the cash (surplus or deficit). This is shown in Table 2.



**TABLE 2: DISAGGREGATION OF FINANCIAL BALANCES BY PROJECT CATEGORY
(US\$ million)**

	Preliminary status report 31 Dec. 2001	Present report 30 June 2002	Change
Category 1: Contribution surplus (confirmed contribution is more than actual expenditures)	206.14	119.11	-87.03
Category 2: Contribution deficit (confirmed contribution is less than actual expenditures)	(3.39)	(1.84)	+1.55
Aggregate net financial balance	202.75	117.27	-85.48
Category 3: Cash deficit (contribution received in cash is less than actual expenditures)	119.18	67.27	-51.91
Category 4: Cash surplus (contribution received in cash is more than actual incurred expenditures)	152.19	113.96	-38.23
Net cash surplus	33.01	46.69	+13.68
Receivable balance	169.74	70.58	-99.16

20. A further disaggregation of the financial balances of closed projects as at 30 June 2002 is by donor contribution group, which is presented in Table 3. This disaggregation shows the balance of receivables still outstanding and/or the cash balances in each of the donor categories.

**TABLE 3: DISAGGREGATION OF NET AGGREGATE FINANCIAL BALANCES
BY DONOR GROUP (30 JUNE 2002)
(US\$ million)**

	No. of donors	Cash balance	Receivable balance	Net aggregate financial balances
Category A: Private-sector and government donors—small net balances surplus	36	0.24	0.18	0.42
Category B: Cash-upfront donors—cash surplus balances	8	27.33	0.02	27.35
Category C: Cash-upfront donors—cash surplus balances net of deficit balances	12	41.86	4.32	46.18
Category D: Donors adopting partial advance mechanism	1	(7.86)	26.13	18.27
Category E: Donors adopting reimbursement mechanism	1	(14.15)	39.25	25.10
Category F: Inter-agency donor arrangement	1	(0.73)	0.68	(.05)
Total	59	46.69	70.58	117.27



CONCLUDING STEPS TO CLEAR CLOSED PROJECTS MIGRATED TO WINGS

21. Following determination of the final balances of these closed projects as at 30 June 2002, the Secretariat has taken the following steps to move forward with their proper disposition.
- **Group A.** Individual letters were sent to donors informing them of the balances of their contributions and requesting their agreement to the reprogramming of the balances.
 - **Groups B and C.** Letters were sent to the donors informing them of the balances of their contributions; these are now being followed up with bilateral consultations.
 - **Groups D and E.** Analysis of contributions and expenditures is continuing as a result of the volume of transactions involved and the complexity of the modalities for remittance of cash contributions by these donors.
 - **Group F.** This is a long outstanding account requiring bilateral consultation with the donor concerned and reconciliation with their records.
22. In addition to the work being undertaken in respect of projects closed prior to 2001 and migrated to WINGS, and with a view to maximizing all available cash resources, the review was extended to all projects in WINGS.

MOVING FORWARD: CLOSURE OF COMPLETED PROJECTS (1999–2001) IN WINGS

23. In January 2002 the Secretariat reviewed open projects with completion or project-end dates in 1999, 2000 and 2001. The objective of the review was to identify projects that should be operationally complete and that should therefore be operationally and financially closed and final balances reported to donors.
24. These projects were classified as:
- a) **ongoing:** 35 projects that did not have project closure dates in WINGS and which remain active;
 - b) **requiring extension beyond the planned project end date:** 73 projects will be further reviewed in Headquarters to determine whether extension is justified. If not, these projects will be reclassified to category C; and
 - c) **operationally complete:** 176 projects to be closed operationally and financially.
25. The financial status of these completed projects as at 8 July 2002 is set out in Table 4.



TABLE 4: FINANCIAL BALANCES OF PROJECTS DECLARED IN WINGS AS COMPLETED AS AT 8 JULY 2002 ^(a)
(US\$ million)

Receivable balance	178.8
Cash balances ^(b)	30.9
Aggregate net financial balance of completed projects	209.7

Notes:

^(a) Balances of directed multilateral confirmed contributions.

^(b) These balances include cash received less actual expenditures (paid) and outstanding obligations.

26. After consultation with the regional bureaux, country offices and relevant divisions in Headquarters, the 176 projects were confirmed to be operationally completed and were approved by the Operations Department for operational closure. These projects were operationally closed in WINGS on 8 July 2002, which means that new resource requirements can no longer be issued against them and that no further financial obligations shall be incurred beyond that date.
27. The 176 operationally completed projects will be progressively financially closed, starting in July 2002. Financial closure will be effected after final payment or surrender of obligations, verification of the validity of outstanding receivables, collection of valid receivables and analysis of project balances by contribution. The final date for closure is 31 December 2002. Balances at that date will be financially certified by Financial Services and the resulting balances of receivables and/or cash will be reported to donors for their proper disposition.

IMPACT ON CASH BALANCES

28. As shown in this paper, completion of these two exercises will have significant impact on the cash balances of the Programme reported in a separate paper to be presented to the Board in October 2002. This consists of the following:

(in US\$ million)	
Cash balance of closed projects migrated in WINGS (Table 1)	46.69
Cash balance of completed projects targeted for financial closure in WINGS (Table 4)	30.90
Total	77.59

29. Resolution of issues regarding the cash balances of closed projects should be undertaken immediately; the Secretariat will consider these cash balances in planning its cash disbursements.
30. The Executive Director will prepare a comprehensive expenditure plan to be used as a basis for bilateral discussions with donors regarding utilization of these cash balances on approved projects facing immediate resource shortfalls.



STRATEGIES TO IMPROVE PROJECT CLOSURE PROCESSES AND REPORTING

31. The management of project closures will be regularly monitored by the Committee on Administration and Management Matters (CAMM) to ensure that projects are operationally completed in accordance with their prescribed completion dates and promptly closed and reported to donors.
32. Within the framework of the operational closure of completed projects, the Operations Department will revise and update the procedures for project closure. The updated procedures will provide guidelines to country offices and regional bureaux to ensure the timely closure of the projects once they have reached their operational termination (completion of final food distribution) dates. The country offices will also be provided with guidelines for proper budgeting and cost containment and guidance on revision of the project budget on a regular basis to avoid excess unspent balances at the closure of the project.
33. These exercises reflect the fact that WINGS has equipped Programme staff with tools and information that previously were not available to them. Project closure will be carried out more systematically utilizing all the project features of WINGS. That includes information about planned budget closure dates, terminal obligation dates and terminal disbursement dates.
34. WINGS features that will further strengthen the closure of projects include:
 - a) “closure alert” that identifies projects with upcoming closure dates to initiate procedures for operational and financial closure; and
 - b) automatically turning off the commitments/expenditure function once a project is operationally completed.
35. As current data in WINGS is recorded more promptly, the time taken to close projects operationally and financially will be reduced. This will lead to more efficient use of donor contributions for project implementation, and more timely reporting to donors and consultations with donors on the use of unspent contributions.
36. The outcome of the concluding steps to clear closed projects (see para. 22) and to close completed projects with end dates from 1999 to 2001 will be conveyed to the Board in a consolidated financial management report to be presented at its Annual Session in 2003.

RECOMMENDATIONS

37. The Executive Director recommends that the Executive Board:
 - take note of the document and appreciate the extensive work done by the Secretariat to complete the review and establish the net financial balances of closed projects migrated to WINGS in January 2001;
 - also take note of the immediate steps taken by the Secretariat to facilitate operational and financial project closures, particularly those with completion end dates in 1999, 2000 and 2001; these should be done in an expeditious manner, including consultations with the relevant donors on the proper disposition of the financial balances of these projects; and



- request the Secretariat to submit the final outcome of these exercises to the Board in a consolidated financial management report at its Annual Session and to provide information on how these funds were reprogrammed or refunded after consultations with donors.



ANNEX

DEFINITION OF TERMS USED IN THE DOCUMENT

Completed projects are projects whose end dates have passed and for which no further distribution of commodities is to be undertaken, but which are not yet declared closed in WINGS pending final execution of operational and financial closure procedures.

Operationally completed projects are projects for which all commodities have been distributed and no further substantive activity is required, including the issue of any obligations.

Financially completed projects are operationally completed projects for which no further disbursements of expenditures are required and for which a final financial report (standardized project report) has been submitted.

Closed projects are projects that are operationally and financially completed.

Cash balances are the portion of the financial balances that are in cash, either because the cash has been contributed upfront or because WFP has disbursed the cash for the expenditures and is awaiting reimbursement from the donor.

Cash surplus exists when the cash contributed to the project by the donor is more than the allocated share of the expenditures incurred for the closed project. This cash could either be reprogrammed with the donor's consent or refunded.

Cash deficit exists when the cash contributed to the project by the donor is less than the donor's actual contribution or allocated share of the expenditures incurred for the closed project or pending reimbursement of cash advanced by WFP. This deficit is called forward from the donor or charged to other contributions of the same donor with their consent.

Financial balances are any balances of funds (receivables and cash) that were contributed (in the case of directed multilateral contributions) or allocated (in the case of multilateral contributions) to a particular project but which were not fully spent at the end of the project.

Income is payment by the donor to WFP, or receipt of confirmed contributions in cash, commodity or services.

Receivable balances (positive or negative) are contributions by donors evidenced by a written commitment to remit cash or in-kind contributions to WFP; they are the result of financial transactions arising from receipt of income in excess of a confirmed contribution or prior to confirmation of the contribution, or from currency exchange variances.

Positive receivables are receivables for which cash or in-kind income has not yet been received by WFP at the snapshot date; they may include currency exchange variations. Some of these positive receivables may have been obligated and paid at the end of the project. Those that have already been obligated and paid must be credited against the donor's accounts. Those receivables that have not been obligated may be written down, because the need for them no longer exists.

Negative receivables are contributions received but not yet confirmed, or contributions received in excess of what was originally confirmed by the donor. They may include currency exchange variations. This will require amendment to the contributions accounts and may require refund to the donor.

Reprogramming is allocation to projects of donor contributions that were not fully utilized as per the original plan.



Refund is the return of donor contributions that were not fully utilized as per the original plan.

Terminal obligation dates are dates set by the donor after which no financial obligation can be incurred against the donor's contribution.

Terminal disbursement dates are dates set by the donor after which no disbursement can be made against the donor's contribution.

Write-down of receivables is the reduction made to the donor contribution receivable to match the amount actually received from the donor.

