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**Executive Board  
Annual Session**

**Rome, 12–16 June 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For consideration*



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## **REPORT ON WFP'S CASH BALANCES**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for consideration.**

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.

Chief Financial Officer, CFO:	Ms G. Casar	tel.: 066513-2885
Deputy CFO and Director, CFOA*:	Mr E. Whiting	tel.: 066513-2701

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

\* Office of Financial Accounting (formerly ADF)



## EXECUTIVE SUMMARY

This report presents the cash and short-term investment balances, by programme category, held by WFP at 31 December 2005, as reported in the Audited Biennial Accounts for the 2004–2005 biennium. It presents financial indicators showing the financial increases in WFP operations over the past three biennia and the related increases in cash balances.

Analysis of cash balances relating to contributions and expenditures shows the turnover ratios of contributions receivable and accounts payable. Monthly cash inflows and outflows show the volatility of cash flows over two years.

The document explains the sources of cash balances under the main category headings presented in the Audited Biennial Accounts and in more detail in each category. Appropriate levels of cash balances under these categories are discussed and compared with the actual cash balances at 31 December 2005.

The Secretariat considers that the overall level of cash balances held by WFP is reasonable, but adjustments are necessary to some of the cash balances in the main categories to restore them to appropriate levels.

## DRAFT DECISION\*

The Board takes note of “Report on WFP’s Cash Balances” (WFP/EB.A/2006/6-H/1) and recommends that the Secretariat keep the cash balances under review to ensure that they are at appropriate levels.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.



## INTRODUCTION

1. In decision 2005/EB.2/9 approving the WFP Management Plan (2006–2007), the Board requested the Secretariat to report on the amount, sources and uses of WFP's cash balances and to explain what the Secretariat considers an appropriate cash level.
2. This document analyses the cash and short-term investments — also referred to as cash balances — as reported in the Audited Biennial Accounts for 2004–2005.

## CASH AND SHORT-TERM INVESTMENTS

3. As presented in the Audited Biennial Accounts, the cash and short-term investment balances held by WFP at 31 December 2005 amounted to US\$1,130,239.
4. Table 1 presents the cash balances by (i) programme category funds, (ii) general fund and special accounts and (iii) bilateral operations and trust funds. The cash and short-term investment balances at the end of the 2002–2003 and 2000–2001 biennia are also presented for comparison.

	31 Dec. 2005	31 Dec. 2003	31 Dec. 2001
Programme category funds	463.4	412.9	391.1
General fund and special accounts	430.7	397.6	347.7
Bilateral operations and trust funds	236.1	96.9	23.5
<b>Total cash and short-term investments</b>	<b>1 130.2</b>	<b>907.4</b>	<b>762.3</b>

5. Cash balances are related to the level of operational activity expressed in financial terms, so any discussion must take account of financial flows and cash balances over time. WFP's cash income and expenditure have increased significantly over the past three biennia.
6. Table 2 presents the main financial indicators for the biennia 2000–2001 to 2004–2005.

	2000–2001	2002–2003	2004–2005	Increase 2004–2005 over 2000–2001	
<b>Total cash and short-term investments<sup>1</sup></b>	<b>762.3</b>	<b>907.3</b>	<b>1 130.2</b>	<b>367.9</b>	<b>48.3%</b>
Programme category cash <sup>1</sup>	391.1	412.9	463.4	72.3	18.5%
Contributions (programme categories) <sup>2</sup>	1 996.5	3 358.7	3 709.1	1 712.6	85.8%
Expenditures (programme categories) <sup>2</sup>	1 931.1	2 924.9	3 763.3	1 832.2	94.9%
Obligations and net payables (programme categories) <sup>1</sup>	226.2	514.2	649.8	423.6	187.3%
Reserves <sup>1</sup>	113.9	336.3	259.4	145.5	127.7%

<sup>1</sup> At 31 December.

<sup>2</sup> Excluding in-kind contributions and expenditures.



7. As shown in Table 2, the financial indicators for contributions and expenditures for 2004–2005 show significant increases over the 2000–2001 biennium.
8. Total cash and short-term investments increased by 48 percent, reflecting mainly the increased bilateral operations and trust fund cash balances. Considering that contribution income levels and expenditures increased by 85 percent to 95 percent — reflecting the significant increases in WFP operations — the programme category fund cash balances show a modest increase of 18.5 percent since December 2001.

## FINANCIAL RATIOS

### Analysis of Cash Balances Versus Cash Expenditures

9. Table 3 presents the programme category fund expenditures and cash balances, in total and by individual programme category, and shows the number of months of cash expenditures that the cash balances represent.

<b>TABLE 3: TURNOVER RATIO OF CASH AND SHORT-TERM INVESTMENTS (US\$ thousand)</b>						
	<b>DEV<sup>1</sup></b>	<b>EMOP<sup>2</sup></b>	<b>PRRO<sup>3</sup></b>	<b>SO<sup>4</sup></b>	<b>Total programme category funds 2004–2005</b>	<b>Total programme category funds 2002–2003</b>
Total expenditure	515 342	2 039 213	1 913 735	257 352	<b>4 725 642</b>	<b>4 631 274</b>
Total cash expenditure	427 542	1 686 036	1 392 415	257 352	<b>3 763 345</b>	<b>2 924 934</b>
Cash and short-term investments, end of period	224 547	5 044	152 802	81 065	<b>463 458</b>	<b>412 900</b>
Cash and short-term investments, end of period, as months of cash expenditure	12.6	0.1	2.6	7.6	<b>3.0</b>	<b>3.4</b>

<sup>1</sup> Development programme

<sup>2</sup> Emergency operation

<sup>3</sup> Protracted relief and recovery operation

<sup>4</sup> Special operation

10. Total cash balances related to programme category funds were US\$463.5 million at 31 December 2005, 12 percent more than at 31 December 2003. These balances represent 3.0 months of cash expenditure during the 2004–2005 biennium. Cash expenditure in 2004–2005 increased to US\$3.8 billion — 28.7 percent more than the 2002–2003 level of US\$2.9 billion — so cash balances declined from 3.4 months of cash expenditure to 3.0 months.
11. Because of the longer project implementation cycle for activities in the development programme category, the cash balances are equal to 12.6 months of 2004–2005 cash expenditure. The EMOP category has fully utilized its cash balances, with only 0.1 months of expenditure available. Cash balances under protracted relief and recovery operations (PRROs) represent 2.6 months of cash expenditure, which is close to the average of the programme category funds as a whole.



## Analysis of Payables and Contributions Receivable Ratios

12. This section reviews the operating cycles through which WFP meets its financial commitments and through which contributions receivable are collected.
13. Table 4 shows that an average of 4.2 months is required to settle WFP's accounts payable, from the time a commitment is made and an obligation incurred to the time of disbursement.

<b>TABLE 4: TURNOVER RATIO OF ACCOUNTS PAYABLE (US\$ thousand)</b>	
	<b>Average 2004–2005 balance</b>
Accounts payable	261 116
Outstanding obligations	643 874
<b>Total</b>	<b>904 990</b>
Average monthly expenditures <sup>1</sup>	216 593
Number of months to settle accounts payable	4.2

<sup>1</sup> Based on total biennium expenditures, excluding in-kind, of US\$5,198,233

14. As shown in Table 5, an average 6.1 months is required from donor confirmation to collection of WFP contributions receivable. The length of this period is influenced by the payment procedures of two major donors who confirm contributions well in advance of payments. Payments are based to some extent on reimbursement of project expenditures incurred.

<b>TABLE 5: TURNOVER RATIO OF CONTRIBUTIONS RECEIVABLE (US\$ thousand)</b>	
	<b>Average 2004–2005 balance</b>
Contributions receivable	1 565 165
Average monthly contribution income <sup>1</sup>	258 243
Number of months to convert contributions receivable into cash	6.1

<sup>1</sup> Based on contribution income of US\$6,197,824 for 2004–2005

15. The cash collection and disbursement cycles are significantly mismatched: cash collection takes two months longer than cash disbursement. WFP starts its programming activities when a contribution is confirmed, so project expenditure can be incurred before WFP has collected the related contribution. Any significant acceleration in disbursements or deceleration in collection of contributions receivable has a direct impact on overall cash balances. Disbursements follow programming activities, but have more uniform monthly flows than cash receipts have; contribution receipts do not flow in at uniform monthly rates, being based on the payment patterns of the donor.



## **Analysis of Cash Receipts and Disbursements**

16. Information on cash balances and cash expenditures is derived from the financial statements, which are based on accrual accounting. The analysis therefore does not take sufficient account of seasonal fluctuations in both cash receipts and disbursements. These seasonal fluctuations have a significant impact on the cash balances related to WFP's core operations.
17. Monthly cash receipts and disbursements were analysed for the 2004–2005 biennium and the first three months of 2006. The volatility of inflows of cash contributions compared with the relatively uniform disbursement of funds for projects has a clear impact on monthly cash balances. Monthly surpluses or shortfalls can be significant; cash shortfalls exceeding US\$100 million occurred in six months of the period under analysis, and surpluses exceeding this amount occurred in five months. Cumulative quarterly figures show how much cash balances can change over short periods.

**TABLE 6: MONTHLY CASH RECEIPTS AND DISBURSEMENTS, 2004–2006**

Year	Month	Total receipts	Total disbursements	Cash surplus (shortfall) per month	Cash surplus (shortfall) per quarter
2004	January 2004	165 929 316	132 332 970	33 596 346	
	February 2004	622 861 615	109 543 435	513 318 180	
	March 2004	607 173 786	176 407 380	430 766 406	977 680 932
	April 2004	172 481 447	312 904 683	-140 423 235	
	May 2004	59 921 391	227 318 034	-167 396 643	
	June 2004	251 954 395	364 827 692	-112 873 296	-420 693 175
	July 2004	60 372 591	337 185 698	-276 813 108	
	August 2004	200 246 830	212 362 454	-12 115 624	
	September 2004	104 605 951	189 456 008	-84 850 057	-373 778 789
	October 2004	152 917 131	186 743 890	-33 826 759	
	November 2004	264 931 237	124 622 772	140 308 464	
	December 2004	166 122 134	189 164 720	-23 042 586	83 439 120
2005	January 2005	253 711 665	143 043 777	110 667 888	
	February 2005	112 739 190	170 812 972	-58 073 782	
	March 2005	190 154 358	205 539 305	-15 384 947	37 209 159
	April 2005	131 368 240	208 846 746	-77 478 506	
	May 2005	193 153 844	228 297 373	-35 143 529	
	June 2005	186 487 752	228 090 724	-41 602 972	-154 225 007
	July 2005	158 997 072	226 381 135	-67 384 063	
	August 2005	448 864 723	236 904 213	211 960 511	
	September 2005	142 206 084	244 012 852	-101 806 768	42 769 680
	October 2005	164 037 148	217 870 666	-53 833 518	
	November 2005	303 220 176	222 447 433	80 772 743	
	December 2005	194 865 058	229 673 612	-34 808 555	-7 869 330
2006	January 2006	87 628 261	208 683 168	-121 054 907	
	February 2006	152 835 267	193 816 712	-40 981 446	
	March 2006	123 329 084	197 483 769	-74 154 686	-236 191 039

These figures excluding fund movements between bank and investment accounts. Disbursements include replenishments from Headquarters to field offices, rather than disbursements from field offices to external parties. Analysis is based on value dates of cash receipts, rather than posting dates of accounting records.

18. The pattern for receipts is volatile because of large concentrations of contributions from major donors and the contributions received for large-scale operations. The Iraq operation strongly influenced the patterns of cash receipts and disbursements, particularly during the first three quarters of 2004. Two large receipts of contributions for the Iraq operations — US\$350 million on 23 February 2004 and US\$450 million on 3 March 2004 — were the main causes of a very high cash surplus in the first quarter of 2004.





## Summary

19. WFP's operational activities must be supported by cash balances to ensure continued operations, having regard to the following:
- collection of cash contributions is volatile as a result of donor payment procedures, concentrations of contributions from major donors and contributions for large-scale operations;
  - cash disbursement and cash collection cycles are significantly mismatched, so funding is required in the event of accelerated disbursements and/or decelerated receipts; and
  - cash balances under the programme category funds represent 3.0 months of cash expenditure.

## SOURCES AND APPROPRIATE LEVELS OF CASH AND SHORT-TERM INVESTMENTS

20. Analysis of the sources and appropriate levels of cash balances requires adjustment among the categories, because a number of funds reported under the general fund and special accounts category are operational in nature and directly support programme category fund activities. These funds amount to US\$68.2 million and include unprogrammed contributions and special account support activities, such as information and communications technology/the Fast Information Technology and Telecommunications Emergency Support Team (ICT/FITTEST), the United Nations Humanitarian Response Depot (UNHRD) and the aviation special account. To take account of the impact of these funds, the cash amounts for programme category funds include US\$68.2 million of other operational activities. The cash under the general fund and special accounts category is reduced by the same amount.
21. As WFP is a voluntarily funded organization, all cash balances originate from donor contributions or miscellaneous income. The following paragraphs discuss the sources of cash balances at 31 December 2005 and the appropriate levels that should be available to WFP.

### Cash Related to Programme Category Funds and Other Operational Activities (US\$531.7 million)

#### ⇒ *Programme Category Funds (US\$463.5 million)*

22. The sources are:
- cash received from donors for the direct operating costs of approved projects that has not been disbursed as unpaid obligations or for project implementation; these funds are required to meet WFP's legal obligations and future project expenditures for which donor funds have been received;
  - unspent cash balances for closed projects held in donor funds pending donor decisions to reprogramme or refund; and
  - income from non-WFP users of air operations in SOs.



### ⇒ *Other Operational Activity Funds (US\$68.2million)*

23. The sources are:

- unprogrammed contributions from donors held in the general fund pending donor identification of the programme category/projects to which they are to be directed — US\$29.1 million; and
- special accounts, including for ICT/FITTEST, UNHRD and the aviation special account, which are funded by donor contributions through internal charging mechanisms to projects — US\$39.1 million.

#### Appropriate levels

24. The level of cash held for programme category fund activities, including operational activity funds, depends on three main factors:

- i) the extent to which donors have paid their confirmed contributions;
- ii) the level of unpaid legal obligations; and
- iii) the rate of financial implementation and the planned implementation period of projects that are approved and funded by confirmed contributions.

25. The minimum levels of cash held by WFP should represent the higher of (i) average cash expenditures for 90 days or (ii) total legal commitments — that is payables owed by WFP, net of other receivables.

26. At 31 December 2005, WFP owed US\$649.8 million of unpaid obligations for programme category fund activities.

27. The shortfall between cash balances of US\$531.7 million and appropriate levels of US\$649.8 million represents cash due from donors in payment of contributions, including those paid as reimbursements.

### **Cash Related to General Fund and Special Accounts (US\$362.4 million) (Net of Other Operational Activity Funds Included Above )**

28. The cash balances held for general fund and special accounts are largely determined by Board and/or Executive Director decisions and fall into the following sub-groupings.

#### ⇒ *Reserves (US\$137.3 million)*

29. The sources are:

- the operational reserve under Financial Regulation 10.5, established by the Board at US\$57 million to ensure funding of operations pending receipt of contributions — US\$57.0 million;
- the Immediate Response Account (IRA), established by the Board at a target minimum of US\$70 million as a flexible resource to enable WFP to respond without delay to emergency situations; the IRA is funded from donor contributions — US\$30.8 million; and
- the direct support costs (DSC) advance facility (DSCAF) of US\$60 million, approved by the Board to cover advances for initial DSC for projects, pending receipt of contributions — US\$49.5 million.



### Appropriate levels

30. All reserves should be backed by cash to ensure that funds are always available for the purposes for which the reserve was established.
31. The purposes of the operational reserve include covering any losses arising from the use of unrealized forecasted contributions as a basis for advances to projects under the approved working capital facility of US\$180 million. A total of US\$150.9 million of advances were made during the biennium; US\$93.3 million was repaid. At 31 December 2005, working capital advances of US\$57.6 million were outstanding, of which US\$6.2 million may have to be written off against the operational reserve in 2006.
32. At 31 December 2005, the IRA was US\$39.2 million short of the target level. This shortfall may be reduced by revolving donor contributions to projects initially funded from the IRA. The amounts revolved in the future cannot be determined, but are not expected to affect significantly the US\$30.8 million shortfall from the IRA target level of US\$70 million as set by the Board.
33. DCSAF cash resources are below the reserve level of US\$60 million owing to outstanding advances of US\$10.5 million. Previous experience indicates that advances will be recovered in full. The cash balance at 31 December 2005 is therefore at the appropriate level.

### ⇒ *Programme Support and Administration (PSA) Equalization Account (US\$107.9 million)*

34. The source is:
  - the programme support and administration (PSA) equalization reserve represents the cumulative unspent indirect support costs (ISC) at the end of the biennium, net of allocations approved by the Board; the reserve balance of US\$122.0 million reported in the Audited Biennial Accounts, when adjusted by contributions not yet received and obligations not yet disbursed, represents a cash balance of US\$107.9 million; and
  - Use of the PSA equalization account is under the authority of the Board.

### Appropriate levels

35. During a biennium, the appropriate cash level in the PSA is equal to the approved PSA budget, less the expenditures incurred for the period of the biennium that has elapsed. As explained in the document before the Board entitled “The Review of the Indirect Support Costs Rate”, the PSA equalization account should maintain approximately US\$66 million to provide sufficient resources to enable WFP to reduce PSA expenditure levels in a phased manner in the event of a significant decline in ISC income.

### ⇒ *Other Accounts (US\$120.0 million)*

36. The sources are:
  - the self-insurance fund, sourced from premiums charged against donor contributions to projects and from recoveries from transporters – US\$29.6 million;
  - the emerging donor matching fund, which was established through the contribution of one donor and is used for twinning the contributions of non-traditional donors – US\$41.2 million;



- other general fund, which comprises miscellaneous income and is under the authority of the Board — US\$12.7 million; and
- net payables/receivables held in the general fund — US\$36.5 million.

#### Appropriate levels

37. The self-insurance fund must be backed by cash resources for approved purposes. Any funds in excess of requirements may be reprogrammed under the authority of the Board. The appropriate level of the self-insurance fund is US\$20 million; the Board has in the past approved the utilization of amounts exceeding this level.
38. The emerging donor matching fund must be fully backed by cash for use in accordance with its rules. The fund has a target allocation level of US\$4 million per annum to ensure that it remains fully funded from investment income.
39. The other general fund should be fully backed by cash because its utilization is under Board authority and net payables are to be backed by cash.

#### **Cash Related to Bilateral Operations and Trust Funds (US\$236.1 million)**

40. Cash balances for bilateral operations and trust funds are governed by specific agreements with donors.
41. The source is:
  - cash received from donors for bilateral operations and trust funds that has not been disbursed or refunded to donors; cash balances at 31 December 2005 included US\$110 million for the Iraq bilateral fund, which will be refunded or reprogrammed following discussions with the donor.

#### Appropriate levels

42. Cash balances under this category must represent the undisbursed portion of all the contributions that are received in cash in advance of expenditures.
43. The nature of cash balances under bilateral operations and trust funds means that the cash balances held must equal the unspent portion of contributions received, irrespective of the level.

#### **Summary of Actual/Appropriate Cash Balances**

44. Table 7 shows the actual cash and short-term balances at 31 December 2005 compared with the appropriate levels determined by the criteria described. The table shows the cash excess or shortfall under each main classification and in total.



<b>TABLE 7. ACTUAL/APPROPRIATE LEVELS OF CASH AND SHORT-TERM INVESTMENTS AT 31 DECEMBER 2005 (US\$ million)</b>				
	<b>Actual</b>		<b>Appropriate</b>	<b>Excess/(shortfall)</b>
<b>Programme category and other</b>				
<b>operational funds</b>				
Programme category funds	463.5			
Other operational balances	68.2			
<b>Subtotal</b>		<b>531.7</b>	<b>648.8</b>	<b>(-118.1)</b>
<b>General fund and special accounts</b>				
Reserves				
Operational reserve	57.0		57.0	
IRA	30.8		70.0	
DSCAF	49.5		49.5	
Subtotal	137.3		176.5	(-39.2)
PSA equalization	107.9		66.0	41.9
Other accounts				
Self-insurance fund	29.7		20.0	
Emerging donor matching fund	41.2		41.2	
Other general fund	12.7		12.7	
Payables/receivables (net)	33.6		33.7	
<b>Subtotal</b>	<b>117.2</b>		<b>107.6</b>	<b>9.6</b>
<b>Subtotal</b>		<b>362.4</b>	<b>350.1</b>	<b>12.3</b>
<b>Bilateral operations and trust funds</b>		<b>236.1</b>	<b>236.1</b>	<b>0.0</b>
<b>Total</b>		<b>1 130.2</b>	<b>1 236.0</b>	<b>(-105.8)</b>

## CONCLUSION

45. This document shows that WFP's cash and short-term investment balances are approximately US\$106 million below appropriate levels, mainly because programme category and other operational activity balances are lower than obligations and net accounts payable.
46. The Secretariat considers that the current levels are reasonable given the anticipated contribution payments from donors for programme category activities.
47. Cash balances in the IRA and PSA equalization accounts require adjustment; proposals for this are included in the Management Plan update document before the Board. The Secretariat will make proposals to the Board at a future session regarding the utilization of excess balances in the self-insurance fund.
48. The Secretariat intends to monitor all cash balances regularly and to ensure that any unused balances, such as those under bilateral operations and trust funds, are refunded or reprogrammed without delay.



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## ACRONYMS USED IN THE DOCUMENT

CFO	Division of the Chief Financial Officer
CFOA	Office of Financial Accounting
DSC	direct support costs
DSCAF	direct support cost advance facility
FITTEST	Fast Information Technology and Telecommunications Emergency Support Team
ICT	information and communications technology
IRA	Immediate Response Account
ISC	indirect support costs
OEDB	Office of Budget
PRRO	protracted relief and recovery operation
PSA	programme support and administration
UNHRD	United Nations Humanitarian Response Depot