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COUNCIL

Hundred and Fifty-third Session

Rome, 30 November - 4 December 2015

Report of the 159th Session of the Finance Committee (26-27 October 2015)

Executive Summary

At its 159th Session, the Committee reviewed a number of financial, budgetary and oversight matters relating to the World Food Programme (WFP), prior to their consideration by the Second Regular Session of the WFP Executive Board in November 2015.

Suggested action by the Council

The Council is invited to note the views and recommendations of the Finance Committee in respect of matters considered by the Second Regular Session of the WFP Executive Board in November 2015.

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Introduction

1. The Committee submitted to the Council the following report of its Hundred and Fifty-ninth Session.
2. In addition to the Chairperson, Mr Khalid Mehboob, the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Ms Kristina Gill (Australia)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Niu Dun (China)
 - Mr Khaled M.S.H. Eltaweel (Egypt)
 - Mr Manuel Furtwaengler (Germany)
 - Mr Lupino jr. Lazaro (Philippines)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Ms Abla Malik Osman Malik (Sudan)
 - Ms Elizabeth Petrovski (USA)
3. The Chairperson informed the Committee that:
 - Ms Kristina Gill (Australia) had been designated to replace Mr Matthew Worrell for this session;
 - Mr Crisantos Obama Ondo (Equatorial Guinea) did not attend this session;
 - Mr Manuel Furtwaengler (Germany) had been designated to replace Mr Heiner Thofern for this session;
 - Mr John C.E. Sandy (Trinidad and Tobago) did not attend this session; and
 - Ms Elizabeth Petrovski (USA) had been designated to replace Ms Natalie E. Brown for this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. In addition, silent observers from the following Members attended the 159th Session of the Committee:
 - European Union
 - France

Election of Vice-Chairperson

6. Ms Natalie E. Brown (USA) was unanimously elected Vice-Chairperson until the end of the Committee's present term of office.

World Food Programme Matters

WFP Management Plan (2016-2018)

7. The Committee considered the WFP Management Plan 2016-2018 (WFP/EB.2/2015/5-A/1) which included: i) a revenue forecast of USD 4.9 billion for 2016 used as the basis for setting the Programme Support and Administrative (PSA) budget and the provisional prioritized plan of work; ii) operational requirements of USD 8.6 billion; iii) a PSA budget of USD 290.3 million; iv) critical

corporate initiatives of USD 20.0 million, consisting of USD 17 million for completion of the Fit for Purpose initiative and USD 3.0 million for investment in the re-engineering and realignment of processes to deliver further savings and improved mission focus at the field level, and to finalize during 2016 the business case for the proposed global service centre; and v) up to USD 1.0 million of internal investment management costs to be paid from the General Fund.

8. The Committee congratulated the Secretariat on the quality of the document, and the comprehensive informal consultative process which had preceded the meeting. The Committee also encouraged the Secretariat to continue to critically review the document to reduce its length.

9. The Committee noted that the PSA budget represented an increase of 3 percent compared to 2015 and was grounded on the principle of “living within its means”. The Committee was informed that in a hypothetical scenario of income in 2016 not generating sufficient indirect support costs (ISC) to meet the budget, the concern would be to establish if the decrease were temporary (in which case resort to the PSA Equalization Account would be an appropriate response) or permanent (in which case the PSA expenditure could be managed to a level below the approved PSA appropriation since the appropriation was itself a ceiling).

10. With regard to the Wellness Programme Fund, the Committee was informed that the Fund was relatively new, having only been approved in May 2015 at the Annual Session of the Executive Board. Firm proposals for its use were expected imminently as a pipeline of initiatives including infrastructure improvements had been identified. In the meantime, the WFP Wellness Strategy had been finalized and some preventative programmes such as vaccination campaigns had been initiated. Priority was being given to acting on the evidence of the 2013 WFP staff appraisal and to collecting more insights on national staff who accounted for 82 percent of WFP’s workforce.

11. The Committee considered the request to raise the ceiling for Corporate Services advances from USD 70 million to USD 82 million to allow for up to USD 40 million for field-based capital improvements through the Capital Budgeting Facility (CBF). While the Committee supported this proposed increase, it questioned whether this was now a baseline or if further increases could be anticipated in the future. The Committee was informed that the CBF was not a funding instrument but a ceiling providing a means for Executive Board oversight of up-front expenditure for which repayment was foreseen over the following years. The Committee was further informed that it was difficult to speculate as to what level the CBF might arrive in future, but that there was already a pipeline of proposals for CBF funding which could rapidly encumber the CBF envelope, given the variable periods of repayment incorporated within each proposal.

12. The Committee welcomed the proposed change to decision (viii) concerning the authority of the Executive Director to adjust the PSA component of the budget in accordance with a change in the level of forecasted income rather than a change in the volume of operational requirements, noting that any such change, if made, would only be exercised towards the end of the year when there was more certainty on the accuracy of the forecasted funding levels for that year. The Committee was informed that the Executive Board would be immediately informed of any such increase.

13. The Committee requested more information in support of the decision to approve the use of the General Fund to charge investment management costs up to USD 1 million per annum from interest income accrued to the General Fund. The Committee recalled that Financial Regulation 11.3 enabled WFP to credit interest income from its investment portfolios and bank and money-market accounts to the General Fund. Although most costs directly related to the management of WFP’s investments, such as fees and charges by financial services providers, were already charged against investment income, the Board agreed for 2015¹ to also charge the USD 750,000, incurred by WFP to oversee the liquidity portfolio and directly manage the working capital portion of the liquidity

¹ Paragraph 161, WFP/EB.2/2014/5-A/1

portfolio (with current ceiling of USD 300 million), to the General Fund. The Committee noted that the Secretariat proposed to establish a ceiling of USD 1 million for these direct costs, from 2016 onward.

14. The Committee underlined the importance of strengthening the initiatives for South-South and Triangular cooperation. The Committee was informed that WFP had put in place a dedicated focal point for South-South and Triangular Cooperation within the Policy and Programme Division since July 2014. In addition, the work had been embedded within the responsibilities of the functional units and programmes at Headquarters and regional levels, and through the work of the WFP Centre of Excellence against Hunger in Brazil. The Committee encouraged WFP to continue to pursue these efforts with vigour.

15. The Committee noted the budgetary demand for the mainstreaming of cash-based transfers and was informed that reliance had hitherto been placed on corporate trust funds to move forward with this activity as well as efforts to gradually mainstream some of the recurring costs of support since the Management Plan (2015-2017). It highlighted the split between the costs to be incurred for development of the platform (which were fully funded and included within the 2015 and 2016 Critical Corporate Initiatives) and the 2016 costs not included in the PSA budget for ongoing support which amounted to more than USD 11 million, of which USD 2.2 million would be resourced from PSA.

16. **The Committee:**

- a) **congratulated the Secretariat on the quality of the document presented and the consultative process followed during its preparation;**
- b) **encouraged the Secretariat to continue to review the structure and content of the Management Plan with the objective of reducing its length in the future; and**
- c) **recommended that the draft decisions as laid out in the *WFP Management Plan (2016-2018)* be approved by the Executive Board.**

Appointment of the WFP External Auditor for the Term 1 July 2016 – 30 June 2022

17. On behalf of the Chairperson of the Evaluation Panel for the Selection and Appointment of the WFP External Auditor, the Vice-President of the Executive Board and member of the Evaluation Panel informed the Members that, through a competitive and transparent selection process, the Evaluation Panel recommended the Executive Board to appoint the Cour des Comptes of France as the WFP External Auditor for a non-renewable six-year term, from 1 July 2016 to 30 June 2022.

18. The Committee was informed that the fee of USD 380,000 was inclusive of all costs to perform the function, including duty travel, and that a resident auditor of the Cour des Comptes would be based in WFP Headquarters. The Committee noted that any increase in the fee would require prior authorization of the Executive Board, following detailed justification by the External Auditor.

19. **The Committee:**

- a) **noted that the selection process was conducted on the basis of a competitive bidding exercise and led by an Evaluation Panel consisting of the 2015 Bureau, supported by the Audit Committee and a technical group drawn from the WFP Secretariat;**
- b) **considered that the selection process of the WFP External Auditor as described in the document was consistent with that approved by the Executive Board; and**
- c) **recommended that the appointment of the Cour des Comptes of France as the WFP External Auditor for the term 1 July 2016 – 30 June 2022 be approved by the Executive Board.**

Update on the Financial Framework Review

20. The Committee received a short introduction including the context, goals and three prioritized work streams for the Financial Framework Review: Resource Based Planning (RBP), Macro Advance Financing (MAF) and Budgeting for Operational Effectiveness (BOE). The Committee was also provided a brief context for the review of the Programme Support and Administration (PSA) Equalization Account target and floor levels.

Part I: Overview of the Financial Framework Review

21. The Committee welcomed the progress report on the Financial Framework Review (FFR) and the Secretariat's commitment to keep Members up to date through informal consultations and bilateral meetings.

22. The Committee noted that RBP should not replace regular assessment of needs and was reassured that needs assessments would continue to be the basis for planning and that the Secretariat was exploring ways to maximize advocacy with the dual planning structure of needs-based budgeting and RBP.

23. The Committee inquired about the pilot countries and the basis for the USD 150 - 200 million MAF envelope. It was informed that eight pilot countries had been identified for the RBP and MAF pilots: Guatemala, Ethiopia, Kenya, Lesotho, Mali, Pakistan, Sudan and Zimbabwe; that all pilot countries would also be used to develop the RBP approach; and that based on that, a risk analysis would be carried out on each country to determine the amount of the MAF advance that would be given, if any.

24. The Committee discussed the potential for the BOE work stream to provide greater flexibility and support performance. It was informed that BOE proposals would be aligned to evaluation recommendations through, for example, better alignment of resource allocations and outcomes, and the development of Theories of Change in connection with the finalization of the next Strategic Plan and Corporate Results Framework.

25. The Committee was informed, in response to a query, that there were strong linkages between the FFR and the Country Strategic Planning (CSP) initiatives, and that the two initiatives were being approached in a coordinated way, including some joint pilot countries. The Committee was also informed that, as a minimum, the proposed BOE structures would be aligned with the CSP since WFP's financial architecture must support future programme design. At the same time, the BOE proposals would not be contingent on the approval of CSP proposals so that they could lead to improved operational effectiveness even if implemented independently.

Part II: Review of the PSA Equalization Account (PSAEA) Target Level

26. The Committee supported the proposals to increase the target level of the PSAEA from four months to five months, and introduce a floor to the PSAEA. The Committee also welcomed the efforts to maximize the value from the PSAEA, and the Secretariat's plan to explore whether the account could be leveraged to manage other financial risks, for example advance financing risks, in a broader way.

27. The Committee inquired about the relationship between the PSAEA target level and any review of the ISC rate and was informed that the level of the PSAEA and the target level would continue to influence the ISC rate under the established methodology.

28. **The Committee:**

- a) **reviewed and welcomed the document on the *Update on the Financial Framework Review*, including the proposed timeline and cost estimates for 2015 and 2016;**

- b) **supported the results of the review of the Programme Support and Administration (PSA) Equalization Account target level;**
- c) **noted the Secretariat's intention to increase the target level of the PSA Equalization Account to 5 months of expenditure and to establish a floor for the account equivalent to 2 months of expenditure for use solely in the event of a sustained deficit between Programme Support and Administrative expenditures and indirect support cost income; and**
- d) **looked forward to receiving regular updates on the Financial Framework Review at its future sessions.**

Other Matters

Working Methods of the Finance Committee

29. The Committee recalled its previous discussion on the criteria for submission of Executive Board documents to the FAO Finance Committee and the Advisory Committee on Administrative and Budgetary Questions. In order to align these discussions with those of the respective bodies, the Committee requested the Chairperson of the Finance Committee to explore with the Secretariat how this could be taken forward and report back to the Committee on this issue.

Date and place of the Hundred and Sixtieth Session

30. The Committee was informed that the 160th Session was scheduled to be held in Rome from 2 to 6 November 2015.

Documents for information

- Work Plan of the External Auditor for the period July 2015 to June 2016