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de Alimentos

**Executive Board  
Second Regular Session**

**Rome, 6-10 November 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

*For information\**

# **E**

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## **UPDATE ON THE WFP MANAGEMENT PLAN (2006-2007)**



\* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

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## NOTE TO THE EXECUTIVE BOARD

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

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.

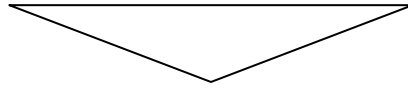
Chief Financial Officer, CFO: Ms G. Casar tel.:066513-2885

Director, CFOB: Mr S. O'Brien tel.:066513-2682

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).



## DRAFT DECISION\*



The Board takes note of "Update on the WFP Management Plan (2006–2007)" (WFP/EB.2/2006/5-G/1).

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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.2/2006/16) issued at the end of the session.



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## INTRODUCTION

1. In the discussion of the Biennial Management Plan (2006–2007) at the Second Regular Session of the Board in November 2005, the Secretariat reaffirmed its commitment to provide updates on implementation of the plan during the biennium. This is the third such update.

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## BACKGROUND

2. The Management Plan (2006–2007) used a needs-based methodology for programme costs, while setting the Programme Support and Administrative (PSA) budget took into consideration the expected level of resources, based on historical funding levels.
3. The Secretariat recognizes that the level of funding projected may not be available from donors; it is therefore continuously reviewing the operational level, the level of funding forecasted and indirect support cost (ISC) income to ensure that PSA expenditure levels are sustainable.
4. This update note provides an overview of where WFP stands regarding the operational budget presented in the Management Plan: an overview of implementation of the PSA budget and the capital and capacity funds and of the PSA equalization account.

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## OPERATIONAL OVERVIEW

5. The biennial programme of work – all the direct costs outlined in the Biennial Management Plan – was US\$5.8 billion, of which 45 percent represented food commodities, 12 percent external transport, 24 percent landside transport, storage and handling (LTSH), 8 percent other direct operational costs (ODOC) and 11 percent direct support costs (DSC).
6. As at 30 August 2006, WFP estimated an increase of US\$ 114 million in its programme of work since the approval of the Management Plan. This amount represents a decrease of US\$52 million since the last Management Plan update provided at the Annual Session of the Executive Board in 2006 where WFP reported an increase in its programme of work of US\$ 166 million. This reduction is mainly due to unforeseen commodities carried forward from 2005 to 2006 operations which has led to a significant reduction of the overall operational budget.
7. Table 1 provides an overview of the most significant value changes and other minor adjustments in the biennial programme of work.

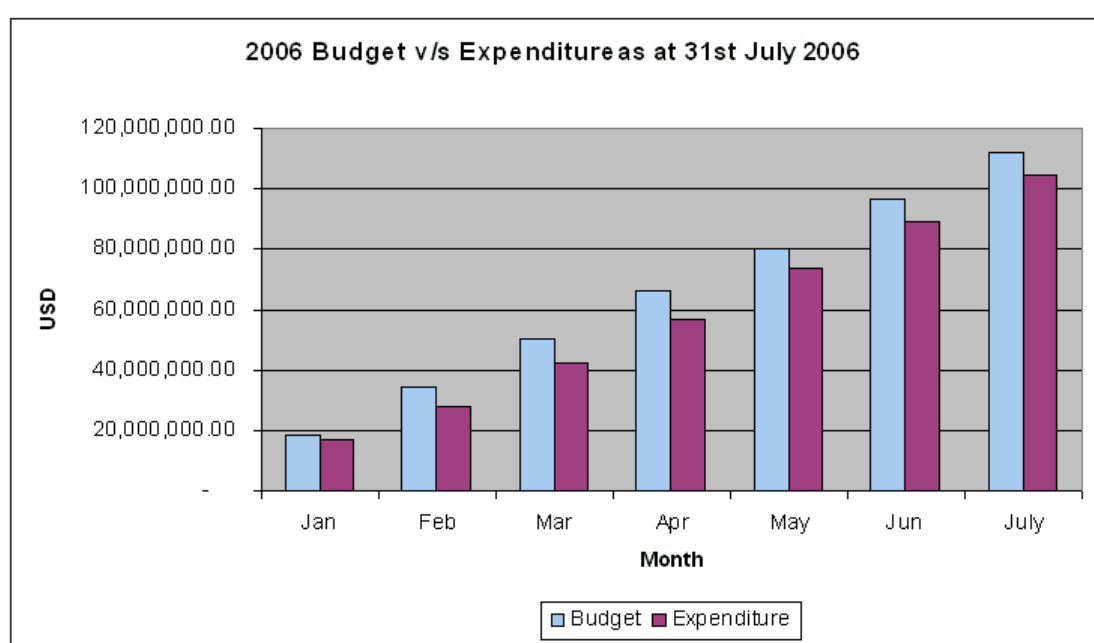
<b>TABLE 1: CHANGES TO THE PROGRAMME OF WORK</b>	
	<b>US\$ million</b>
<b>Original Management Plan</b>	<b>5 793</b>
Kenya EMOP	212
Indonesia PRRO	80
Pakistan PPRO	61
Niger PRRO	35
Philippines EMOP	25
Lebanon EMOP	20
DPRK EMOP	-459
DPRK PRRO	83
Indonesia SO	91
Pakistan SO	52
Lebanon SO	37
Other adjustments*	-123
<b>Sub-total revised</b>	<b>114</b>
<b>Revised programme of work</b>	<b>5 907</b>

\* The reduction of US\$123 million takes into account the higher than expected carry over stock from 2005.

## PROGRAMME SUPPORT AND ADMINISTRATIVE (PSA)

8. For the 2006–2007 biennium the Executive Board approved a PSA budget of US\$368 million, rising to US\$371 million when carry-over allotments delegated to the Executive Director by the Executive Board are considered. At the end of July 2006 the actual PSA expenditure amounted to US\$105 million, equivalent to 29 percent of the approved PSA budget and US\$7 million below the budgeted amount of US\$112 million.
9. The following figure outlines the planned monthly budgets vs. the actual expenditures from January to July 2006. WFP was expending at a slightly lower level than planned over the first seven months of the biennium.





## CARRY-OVER OF UNSPENT PSA, 2004–2005

10. With the Executive Board's approval, the Secretariat carried over activities that could more feasibly be finalized in 2006–2007. These activities were scheduled to be finalized by the end of June 2006, when all allotments were planned to be surrendered. After careful consideration, the Secretariat has decided to extend the duration of four important activities that could not be finalized:

	(in US dollars)
GSS (global staff survey)	50,000
ODTF (OSTAR)	60,000
ODMP (New Business Model)	503,000
New Graduate Programme	48,000
<b>Total extended carry-over allotments</b>	<b>661,000</b>

11. The Secretariat has extended the validity of these four allotments by one year, to June 2007, and they are included in the PSA budget of US\$371 million.

## OTHER APPROVALS

12. The Board also authorized the Executive Director to allot US\$29.2 million for non-recurring capacity building and capital investment, which would be funded from the PSA equalization account.



	<b>US\$ Million</b>
Capital Asset Fund – WINGS II	15.0
Capital Asset Fund – other capital expenditures	5.0
Strengthening Financial Management Fund	2.0
Results-Based Management Fund	3.5
IPSAS	3.7
<b>Total</b>	<b>29.2</b>

## PROJECTED RESOURCE LEVELS

13. The Secretariat currently forecasts a contribution level at US\$5.6 billion for the biennium, split between US\$5.248 billion for operational costs and US\$352 million for ISC, which is US\$19 million less than the PSA budget of US\$371 million, but US\$25 million higher than the US\$327 envisaged in the plan. This forecast is also somewhat higher than the historical funding level of 81 percent on which the Management Plan is based.
14. This forecast is subject to operational and other uncertainties that will have a significant impact on the resources generated during the remainder of the biennium.

## STATUS OF THE PSA EQUALIZATION ACCOUNT

15. As indicated in the last update, the actual balance of the PSA equalization account at 31 December 2005 was higher than expected. The Management Plan forecasted a 2005 year-end balance of US\$78 million; the actual balance according to the Audited Financial Statements was US\$122 million.

	<b>Management Plan Estimate</b>	<b>Current forecast</b>
1 January 2006 opening balance	78	122
2006–2007 ISC income	327	352
2006–2007 PSA expenditure	(368)	(368)
Carry-over	-	(3)
2006–2007 capital and capacity funds	(25)	(29)
Transfer to IRA	-	(20)
<b>31 December 2007 forecast</b>	<b>12</b>	<b>54</b>



16. The forecasted biennium-end balance of the PSA equalization account is US\$54 million. This is higher than the estimate presented in the Management Plan owing to a higher than forecast opening balance at 1 January 2006 and ISC from the unforeseen operations, which although anticipated in the Management Plan could not be quantified.
17. In the Review of Indirect Support Cost Rate (WFP/EB.A/2006/6-C/1), a target level for the PSA equalization account of US\$66 million was established for the 2006–2007 biennium. This is based on a reserve for four months of indirect expenditures.
18. The current forecast is therefore slightly below the target level, but the ISC income forecast does not include the possible impact of unforeseen emergencies over the remainder of the biennium, and is currently deemed to be an acceptable level this early in the 2006–2007 biennium.

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## ADDITIONAL PSA REQUIREMENTS

19. In the previous update on the WFP Management Plan (WFP/EB.A/2006/6-K/1) the Secretariat outlined its intention to request additional funding to develop capacity to respond to four concurrent major emergencies through:
  - augmentation of vulnerability analysis and mapping (VAM);
  - improved logistics surge capacity and predictability of response;
  - development of the United Nations Humanitarian Response Depots.
20. In addition to the capacity to respond to four concurrent major emergencies, the Secretariat has also identified other activities that may require additional PSA resources:
  - a career development programme;
  - the national staff project;
  - increased fund-raising capacity; and
  - continued financial and oversight strengthening.
21. However, the Secretariat also recognizes the need to maintain a level of PSA – and other indirect costs such as the capital and capacity funds – that is sustainable in future years. Maintaining the PSA equalization account balance at the recently established target level is also necessary to ensure that WFP has sufficient time to respond should there be a significant drop in ISC income.
22. It is therefore intended that instead of requesting the use of additional funds from the PSA equalization account at this stage, the five priorities will be absorbed within the existing approved PSA amount.
23. This entails reprioritizing PSA activities to identify and eliminate those that may be of a lower priority, and carrying out a review to identify the most efficient approach to the five priorities.
24. The reprioritization exercise was started in September 2006 and the Board will be informed of its results in the next update on the WFP Management Plan at the First Regular Session of 2007.





## OTHER COST CONSIDERATIONS

25. The Biennial Management Plan continued the practice of charging international staff and Rome-based General Service staff at standard costs. This means that the approved PSA budget is based on standard staff costs that were compiled in early 2005.
26. Since then many changes have had an impact on staff costs. Many of these changes can be accommodated within the current standard costs – and therefore within the approved PSA budget – but two factors that may not be accommodated have been identified:
  - increases to the General Service staff salary scale; and
  - an increase in salary costs resulting from the service cost provision and constitution of the after-service medical liabilities.
27. As the full impact of these two factors is not yet known, the next update on the WFP Management Plan will include an outline of them, together with a proposed solution.
28. In addition, WFP has identified several other expenditure risks that were not foreseen in the 2006–2007 Management Plan, including:
  - higher than anticipated security costs/assessments;
  - avian flu contingency planning; and
  - Walk the World costs in excess of income.
29. WFP is currently evaluating these risks and will determine how to mitigate them effectively in the next update to the Management Plan in 2007.

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## ACRONYMS USED IN THE DOCUMENT

CFO	Division of the Chief Financial Officer
CFOB	Budget and Financial Planning Office
DPRK	Democratic People's Republic of Korea
DSC	direct support costs
EMOP	emergency operation
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support cost
LTSH	landside transport, storage and handling
ODOC	other direct operational costs
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative
SO	special operation
VAM	vulnerability analysis and mapping