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UPDATE ON OUTSTANDING BALANCE OF COMMITMENTS FOR ONGOING DEVELOPMENT PROJECTS

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UPDATE ON OUTSTANDING BALANCE OF COMMITMENTS FOR ONGOING DEVELOPMENT PROJECTS

1. The global outstanding balance of commitments (OBC)¹ for ongoing development projects has been on a downward trend since December 1992:

	Million metric tons
1992	3.8
1993	3.3
1994	3.2
1995	2.8

2. The volume of 2.8 million metric tons outstanding at the end of 1995 is to be delivered to recipients in 1996 and subsequent years. For 1996, the estimated availability of resources stands at 868,000 metric tons. This is more than 15 percent lower than the volume of resources available in 1995.
3. The determination of an appropriate level for new commitments is therefore not straightforward: while projects are approved for a duration of up to five years, the availability of commodities is hardly ever known with any precision a year ahead.
4. WFP's projection of the global level of future commitments is based on the principle of obtaining estimates of prudent levels of new commitments consistent with a) year-end OBC by commodity and b) commodity quantities reasonably expected to be available during subsequent budget years.
5. The Programme's current policy aims to have at the end of any calendar year the OBC by commodity, corrected by the delivery performance ratio (DPR),² as close as possible to the target OBC. The latter is equivalent to 2.5 times the estimated yearly availability of commodities, i.e., WFP should aim to carry forward an unshipped commodity balance equivalent to 2.5 years of current commodity availability. The model is therefore dependent on, and sensitive to, the yearly availability of resources.
6. In the case of volatile, decreasing resource levels, the challenge in determining future levels of commitments is twofold. Approved, well-performing projects deserve to be given a chance to adjust to a lower level of resources in a manner which does not unduly disrupt their implementation. On the other hand, the Programme has to ensure a certain level of new activities in order not to find itself in the future in a situation of insufficient demand compared to the expected availability of commodities.

¹ "Outstanding balance of commitments" indicates the volume of approved commitments for ongoing projects that remains to be delivered.

² The DPR is an empirical adjustment factor, defined as the ratio of final deliveries over total approved commitments. Globally, the DPR is currently estimated at 90 percent.



7. Taking all these elements into account, the Programme has established a tentative level of new commitments of 540,000 metric tons for 1996. In this way, at the end of the year, the Programme would be globally in line with the target OBC, which is equal to 2,170,000 metric tons, i.e., 2.5 times the estimated availability of 868,000 metric tons, as illustrated below.

DEVELOPMENT PORTFOLIO: OBC ANALYSIS
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	Metric tons
Crude OBC as at 31.12.95	2 809 000
Expected deliveries	-868 000
Tentative new commitments	540 000
Estimated crude OBC as at 31.12.96	2 481 000
Adjustment for the DPR	335 000 ¹
Estimated DPR-adjusted OBC at 31.12.96	2 146 000
Target OBC at 31.12.96	2 170 000

8. The estimated crude OBC at the end of 1996 is therefore almost 330,000 metric tons lower than the balance at the end of 1995.
9. In view of the current resourcing shortfall for development activities, the Programme, however, considers the tentative commitment level of 540,000 metric tons as a ceiling for 1996.
10. As of 24 May, total new commitments in 1996, including five projects and two budget increases proposed for approval at the Second Regular Session of the Executive Board (1996), amounted to 193,000 metric tons. Therefore, in theory, some 347,000 metric tons of commodities could still be committed during the remainder of the year.
11. Taking into account the actual availability of commodities for delivery in 1996, the Programme will nevertheless continue to monitor closely all proposals for approval of new commitments until the end of the year. By applying this adjustment mechanism, the Programme aims at ensuring that a reasonable equilibrium between the level of outstanding commitments and the expected availability of resources is maintained.

¹ Calculated as the sum total of 10 percent of the crude OBC at 31 December 1995 (281,000 metric tons) and 10 percent of tentative new commitments (54,000 metric tons).



