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INFORMATION NOTE

INITIATIVES RESULTING IN COST SAVINGS AND REVENUE GENERATION



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The Executive Director is pleased to provide this supplementary information note on initiatives resulting in cost savings and revenue generation and reductions in the PSA to assist Members of the Executive Board in their review and discussion of WFP's proposed budget for the period 1998-99 (WFP/EB.3/97/4-A).

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INITIATIVES RESULTING IN COST SAVINGS AND REVENUE GENERATION

1. Operational initiatives aimed at streamlining and decentralizing WFP's business practices and improving efficiency and responsiveness are major elements of consideration in the context of preparations for WFP's strategic and financial plans and biennial budgets. The principle of cost consciousness, while practised Programme-wide, is particularly applicable to WFP's biennial programme support and administrative (PSA) budget since the level of PSA is not fixed for each biennium; rather, it is linked to the volume of operations, which means the variable component of the budget can fluctuate up or down. As a result, the level of PSA can vary.
2. Bearing in mind the possibility of fluctuations in operational volumes and the resulting need to adjust PSA levels upwards or downwards accordingly, it is imperative for WFP to continuously seek tangible ways of reducing or containing overhead costs and maximizing savings and benefits without compromising the quality of services or programme delivery.

1994-95 biennium

3. Since the start of the 1994-95 biennium, a number of measures have been introduced to attain cost savings in operations and in the PSA budget. These measures, resulting in one-time or recurring savings, are closely monitored to ensure that planned savings actually materialize, and that at the same time operations and other core functions are not adversely affected.
4. WFP's turnover in the 1994-95 biennium amounted to about \$2.6 billion. Included in that amount was \$182 million to cover the PSA budget component. The operational level during the biennium was 6,230 thousand tons.
5. In operational and PSA budget terms, WFP realized \$48.9 million in savings during the biennium, as reported in WFP's Budgetary Performance Report for 1994-95. The bulk of those savings were achieved in operations, particularly in the areas of transport, logistics and insurance where decreases were realized through better programming, coupled with the introduction of a new self-insurance plan. From the total amount of savings attained, \$8.4 million was directly related to WFP operations while \$35.2 million came from initiatives aimed at reducing the operational costs to donors.
6. Cost savings in the PSA budget amounted to \$5.3 million in 1994-95. These savings were accrued mostly through: i) a substitution of international professional posts with national officer posts; ii) tight management of post vacancies; and iii) a reduction in conference servicing and technical support costs.



7. The specific cost-saving measures and the amounts saved during the 1994-95 biennium are outlined in the table below.

COST SAVING MEASURES 1994-95 BIENNIUM		
Item	Measure adopted	Amount saved (in million \$)
Operations (WFP)	Interest in imprest accounts	0.4
	Transport and logistics	6.6
	Partial self-insurance	1.0
	Overland transport and ITSH	0.4
Subtotal		8.4
Operations (donors)	Transport and logistics	1.2
	Partial self-insurance	2.3
	Overland transport and ITSH	31.7
Subtotal		35.2
PSA budget	Substitution of international officer posts for national officer posts and reduction in conference servicing and technical support costs	5.3
Subtotal		5.3
Total		48.9

1996-97 biennium

8. WFP's turnover in the 1996-97 biennium is foreseen at \$2.7 billion. Included in that amount is the PSA component which is foreseen at \$226.4 million. The PSA budget is based on a projected operational level of 5,000 thousand tons.
9. Cost-saving initiatives in the 1996-97 biennium have focused largely on streamlining operations, enhancing efficiency and improving effectiveness. A more rigorous approach in reviewing and revising internal transport, storage and handling (ITSH) rates and improved planning for overland transport is expected to result in additional savings in the range of \$10.1 million. While an anticipated reduction in development volumes makes programming of bulk shipments more difficult, higher emergency operation levels afford more opportunities for economies in landside transport, storage, and handling (LTSH) costs.
10. WFP, through its Office of Inspection and Investigation (OEDI), has been able to prevent occurrences of fraud during the 1996-97 biennium. In two particular instances, OEDI was able to successfully recover over \$3 million. The recovered funds were later used to cover other operational expenses.
11. Certain initiatives such as the Financial Management Improvement Programme (FMIP) are expected to result in longer-term savings and benefits. The broad objective of FMIP is to improve the financial management capability of WFP, in particular its ability to account for, and report on, in both an accurate and timely manner, the utilization of resources placed at WFP's disposal. While the savings and benefit stream from FMIP have already led to some results (e.g., savings in computer



transaction time and merging of financial processing systems), the full impact of FMIP initiatives will not be fully attained until the year 2000.

12. As an efficiency improvement measure, the public WFP Internet Web site was launched in 1996 to facilitate more timely and less costly information exchange and coordination between WFP, its donors and other partners in the international community engaged in relief and development. Official WFP documents, such as those provided to the Executive Board, which were previously disseminated exclusively in printed form by mail, can now be obtained via WFP's Web home page.
13. The gross recosted biennial PSA budget for the 1996-97 biennium was initially set at \$240 million, with a provision for savings of \$6 million from streamlining of operations. This level was based on an assumed operational level of 5,600 thousand tons. However, that assumption was later revised downwards to 5,000 thousand tons. In accordance with this variation in the volume of operations, the PSA biennial budget was reduced to \$226 million (a reduction of \$14 million).
14. To achieve the reduction, savings in the PSA budget will come about mostly through:
 - i) a reduction in staff costs, both in the field and at headquarters through managing vacant posts; ii) planned office closures in certain countries where WFP is phasing out its programme of food assistance; iii) reduction in the cost of meetings and documentation; iv) most economical air fares for duty travel; and v) other measures such as a realignment of external technical assistance needs to match the changing nature of WFP's operations.
15. The most significant savings in the 1996-97 period are in staff costs. To achieve these savings, the salary/lapse factor was managed very closely. Whereas in the past managers could use salary dollars for other personnel support items, only one-for-one replacement was allowed for vacant posts in 1996-97.
16. The specific operational and PSA budget cost-saving measures and the amount expected to be saved during the 1996-97 biennium are given in the table below.

COST SAVING MEASURES 1996-97 BIENNIUM		
Item	Measures adopted	Amount saved (in million \$)
Operations (WFP)	Savings in transport and logistics	10.1
	Cash recoveries (see paragraph 10)	3.5
Subtotal		13.6
PSA budget	Savings in headquarters staff costs	5.9
	Savings in field staff costs	4.1
	Savings from country office closures	3.1
	Reduction in cost of meetings and documentation	0.3
	Reduction in travel costs	0.1
	Other cost-saving measures	0.5
Subtotal		14.0
Total		27.6



1998-99 biennium

17. WFP's turnover in the 1998-99 biennium is estimated at roughly \$2.4 billion and is based on an assumed operational level of 4,381 thousand tons. In line with a lower projected level of operations in 1998-99, the proposed PSA budget reduces from \$226.4 million (the amount set for 1996-97) to \$205 million (in 1996-97 cost terms). The cost increase in staff costs of \$9.4 million raises the budget to \$214.4 million.
18. Cost-saving initiatives during the biennium will focus mainly on decentralization, streamlining and elimination of certain functional activities (i.e., decentralization of central budgets at headquarters, placing more staff and authority in the field, and integrating functions of a linked or similar nature to improve efficiency, enhance focus and scale down on management levels). In addition to reducing the 1998-99 PSA budget by \$18.9 million (in relation to the 1996-97 budget), further anticipated savings of \$2.5 million are expected to be identified during the biennium through further streamlining operations and tight management over the lapse factor.
19. Measures to reduce costs at headquarters and in the field were driven mostly by the need to align the PSA budget with a reduced level of operations. Decentralization and streamlining have contributed heavily to staff reductions at headquarters, where a net reduction of 44.5 posts is projected. Some of these savings (about \$1.9 million) will be accrued through the introduction of automated processes under FMIP.
20. A planned reduction in operations in some countries has also led to staff reductions (i.e., 18 professional posts and 69 posts under other categories), although in the framework of decentralization and the establishment of regional clusters, this allows for some redeployment to strengthen capacity in line with foreseen needs.
21. Savings in PSA non-staff cost items are also foreseen in: i) travel (due to WFP's most economical air fare for duty travel policy and fewer countries as a result of office closures); ii) technical support; iii) consultancy; and iv) meetings and documentation. Cost reductions in telecommunications and mainframe transaction processing are also expected as a result of FMIP initiatives. An amount of \$1 million in savings is expected over the biennium. Other cost reductions are expected to materialize from outsourcing, including internal audits.
22. In the coming biennium WFP will continue to look for ways to achieve operational savings in transport and logistics. Major improvements are expected in the way that WFP administers LTSH funds. A new LTSH cost estimation format will be introduced which will prove the accuracy and rate estimation and enhance transparency in the way LTSH rates are established and applied. While it is not possible at this early juncture to quantify the level of operational savings that may be achieved, WFP will report on the outcome of efforts to realize savings at some future point in the 1998-99 biennium.



23. The specific measures to achieve savings in the PSA budget and the amounts expected to be saved during the 1998-99 biennium appear in the table below.

COST SAVING MEASURES 1998-99 BIENNIUM		
Item	Measures adopted	Amount expected to be saved (in million \$)
PSA budget	Headquarters staff reductions	6.2
	- decentralization	2.2
	- streamlining	2.8
	- elimination	1.2
	Field staff reductions	4.5
	Technical support (to be charged directly to projects)	4.1
	Reduction in consultancy	2.1
	Reduction in travel costs	0.6
	Reduction in communications	0.6
	Reduction in meetings and documentation	0.3
	Other reductions	0.5
	Anticipated additional savings to be identified during the biennium	2.5
	Total	

