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**Executive Board
First Regular Session**

Rome, 8–11 February 2010

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

*For information**

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Distribution: GENERAL
WFP/EB.1/2010/6-F/1
12 January 2010
ORIGINAL: ENGLISH

UPDATE ON THE WFP BIENNIAL MANAGEMENT PLAN (2010–2011)

* 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.

Deputy Executive Director and Chief Financial Officer: Ms G. Casar tel.: 066513-2885

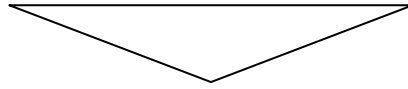
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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms I. Carpitella, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



DRAFT DECISION*



The Board takes note of “Update on the WFP Biennial Management Plan (2010–2011)” (WFP/EB.1/2010/6-F/1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



INTRODUCTION

1. With the approval of the WFP Biennial Management Plan (2010–2011), the Secretariat reaffirmed its commitment to providing updates on the implementation of the Plan. This first update to the Board on implementation includes information available to December 2009.

BACKGROUND

2. The WFP Biennial Management Plan (2010–2011) outlined the expected programme of work for the biennium, which totalled US\$8.95 billion, including indirect support costs (ISC). The Programme Support and Administrative (PSA) budget of US\$476 million took into consideration the level of ISC income that was expected to be generated from these requirements, based on historical funding levels and predicted reserve balances.
3. This update provides an overview of the changes in the programme of work since the approval of the Management Plan and of the latest projected resource levels to fund the programme of work, along with the updated status of the PSA Equalization Account.
4. The Secretariat will continue to monitor food and fuel prices through a WFP-specific cereal index and a crude oil index and to monitor the US\$/Euro exchange rate.
5. Recognizing that in a voluntarily funded organization funding required may not be available from donors, the Secretariat will continue to review the level of PSA expenditure to ensure that it is sustainable.

ADDITIONAL REQUIREMENTS

6. The programme of work was projected in the original Management Plan (2010–2011) at US\$8.95 billion (US\$8.37 billion plus ISC), of which US\$4.6 billion is for 2010 and US\$4.35 billion for 2011.
7. As shown in Table 1 below, the updated 2010 programme of work has increased by US\$595 million, bringing the total programme of work for the biennium to US\$9.55 billion, of which US\$5.2 billion is for 2010.

TABLE 1: UPDATED BUDGET INCREASES (2010) – TOP COUNTRIES <i>(US\$ million)*</i>			
	Original Management Plan	Updated Requirements	Increase
Pakistan	75.4	316.2	240.8
Sudan	858.9	969.4	110.5
Afghanistan	244.9	325.3	80.4
Ethiopia	302.7	352.1	49.4
Others	3 124.3	3 237.8	113.5
TOTAL	4 606.2	5 200.8	594.6

* including ISC



Pakistan

8. The emergency operation (EMOP) in Pakistan is expected to have additional needs arising from the extremely volatile security situation, which has resulted in increased numbers of internally displaced persons (IDPs) requiring food assistance. WFP is currently providing assistance to 8.8 million people in Pakistan, including 2.6 million IDPs, many of whom are fleeing the fighting in South Waziristan. Food requirements have increased by 272,000 mt.
9. Two logistics cluster cells were established to address the increased need for a coordinated and efficient logistics response from the international community to avoid bottlenecks and possible overlaps.
10. The costs for staff security have increased following the 9 October attack and the extension of WFP's work into extremely insecure areas.

The Sudan

11. Food requirements and direct support costs in Darfur and Southern Sudan have risen further because of instability and increasing hunger owing to a greater lack of livelihood opportunities. The EMOPs provide food to 6.4 million beneficiaries. The operation in Darfur, which accounts for most of the food delivered, involves increasingly higher transportation costs. It is concentrated in highly insecure areas, where risks to personnel, equipment and cargo – and therefore the need to ensure safe delivery and the protection of personnel – contribute to higher costs.

Afghanistan

12. Increases in operational requirements in Afghanistan are mainly a result of increased assessed needs and the request by the Government for additional protracted relief and recovery operation (PRRO) activities in 2010 to enhance resilience and food security for 6.4 million beneficiaries. In addition, costs related to security increased, especially following recent incidents targeting United Nations facilities.

Ethiopia

13. The increase in requirements for the PRRO in Ethiopia is the result of poor and erratic rainfall over the last two years, high food and fuel prices and the current global economic downturn – all leading to increased assessed urgent hunger needs. It is expected that drought and economic conditions could lead to further requirements for additional PRRO beneficiaries during 2010.

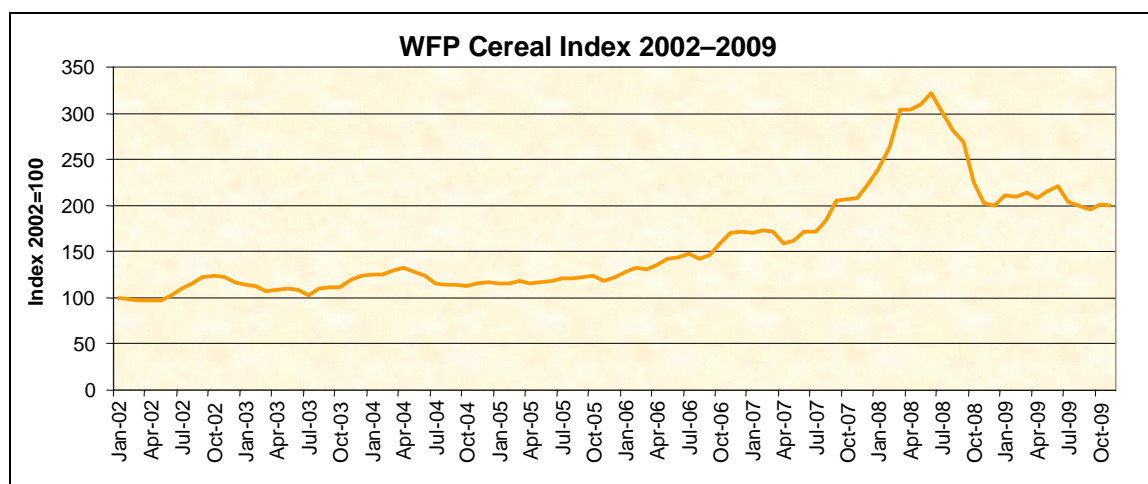
Other

14. Most other increases in the programme of work are for the Democratic Republic of the Congo to address increasing food insecurity through an EMOP (US\$27.7 million); the United Republic of Tanzania (US\$26.1 million) for a country programme (CP) requested by the Government to support the second phase of its Poverty Reduction Strategy; and Sri Lanka (US\$25.9 million) for a new PRRO to support IDPs, returnees and those affected by the ending of the long-term conflict. Other increases (US\$33.8 million) are for lesser amounts over a wide range of operations.



WFP CEREAL AND FUEL INDEX

15. WFP monitors cereal prices through a WFP-specific cereal index that uses data provided by the Food and Agriculture Organization of the United Nations (FAO); and oil prices through a crude oil price index based on Brent crude futures. It monitors cereal and oil prices because they have a strong bearing on WFP's operational costs. The cereal and crude oil indices show that cereal prices on global markets were stable in 2009 while crude oil prices have increased in recent months mainly on expectations of a recovery in the global economic situation.

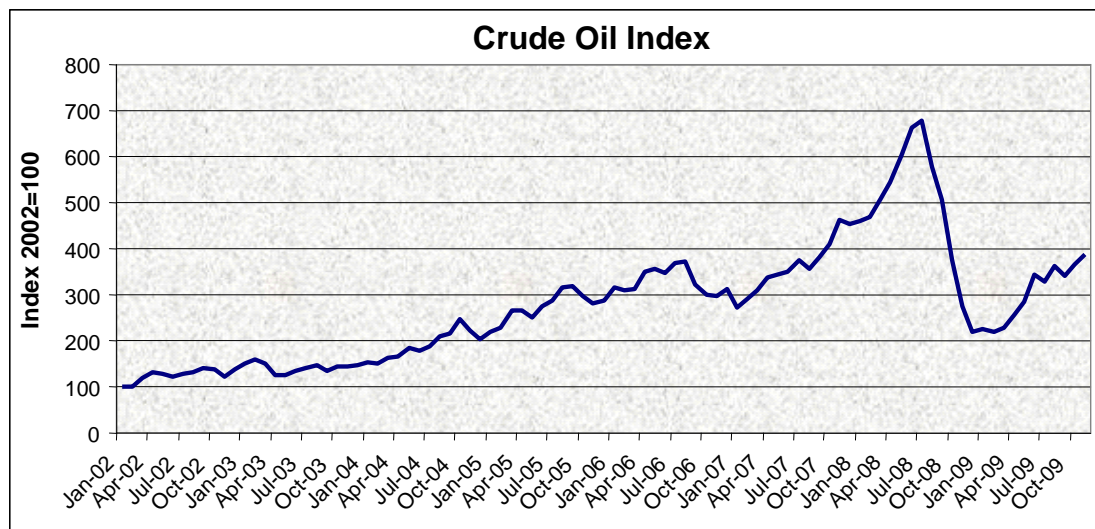


16. In almost half of the more than 60 countries monitored by WFP, staple commodity prices are more than 20 percent higher than the average for the past five years. For example, in Afghanistan the price of wheat is currently 61 percent higher than the average for the past five years, and rice is 20 percent higher. In Somalia and the Sudan the price of sorghum in recent months was more than 100 percent higher than the average for the past five years.¹
17. According to the FAO December 2009 Food Outlook,² world cereal stocks are at higher levels now than during 2007–2008, when prices peaked. However, it notes that the global food system now faces entrenched susceptibility to external non-food economic factors such as exchange rates and oil prices, which will have a direct impact on the purchasing capacity of households.
18. At this time, the original Management Plan food projections adequately cover current prices.

¹ WFP. 2009. Financial Crisis and High Food Prices. Rome, 13 November.

² FAO. 2009. Food Outlook Global Market Analysis. Rome, 9 December.





19. The crude oil index shows that although the current price of crude oil remains significantly lower than the peak reached in mid 2008, it is still relatively high compared to the average price of crude oil prior to 2008. If the price of crude oil continues to increase in 2010, WFP will evaluate whether the increase is likely to have an impact on landside transport, storage and handling and external transport costs during the 2010–2011 biennium.
20. The Secretariat will continue to monitor food and fuel prices and inform the Board through the Management Plan updates.

PROJECTED RESOURCE LEVELS

21. For 2009 contribution income is expected to reach US\$4.0 billion.
22. The Management Plan (2010–2011) was based on an overall income forecast of US\$7.5 billion, which would generate US\$476 million of ISC income. This corresponded to 84 percent funding of the original US\$8.95 billion programme of work.
23. Current funding projections remain at US\$7.5 billion (US\$3.75 billion per year).

STATUS OF THE PSA EQUALIZATION ACCOUNT

24. The latest forecast for the PSA Equalization Account, based on the approved PSA appropriation, is shown in Table 2.

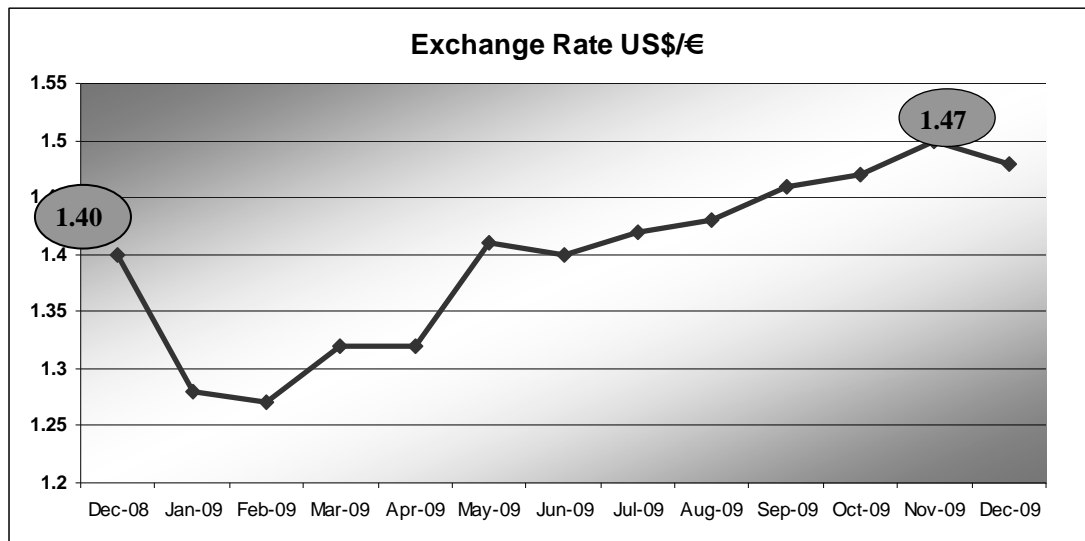
	Management Plan	Update
1 January 2010 estimated opening balance	70.4	96.7
2010–2011 projected income at 7%	476.0	476.0
2010–2011 approved PSA	(476.0)	(476.0)
2010–2011 one-time allocation	(25.9)	(25.9)
Subtotal, Expenditure	(501.9)	(501.9)
31 December 2011 forecast	44.5	70.8

25. The forecasted balance of the PSA Equalization Account for the end of the 2010–2011 biennium is now US\$70.8 million. This is an increase of US\$26.3 million from the forecasted balance of US\$44.5 million presented in the Management Plan.
26. The increase in the forecasted balance is a result of contributions received late in 2009 for implementation in 2010, which generated additional ISC income in the final quarter of 2009. This will assist WFP in achieving its target of maintaining in the PSA Equalization Account an amount equivalent to at least four months of expected PSA expenditure.
27. The Secretariat will continue to monitor both ISC income and PSA expenditures and report to the Board on the status of the PSA Equalization Account.

HEDGING

Providing Certainty for PSA Budget Implementation through Currency Hedging

28. At its 2008 Annual Session, the Board approved a policy for hedging the Euro component of PSA expenses to increase funding stability for the PSA. The Secretariat subsequently entered into hedging arrangements for €4.8 million per month for 2009 at a fixed average exchange rate of €1 to US\$1.44.
29. In June 2009, the Secretariat informed the Board of its intention to hedge Euro expenditure for 2010 and 2011 in the amount of €5 million per month. Hedging arrangements were entered into in July 2009, and the exchange rate was fixed at €1 to US\$1.41. This allowed the Secretariat to incorporate the average Euro/US\$ rate into the new standard position costs, resulting in certainty of the US\$ value for Euro-denominated PSA staff expenditure. This lent greater predictability to the PSA budget planning process.
30. As shown in Figure 1, the US\$/Euro exchange rate has continued to increase in 2009 and has remained above 2008 levels throughout the year.



31. The Secretariat intends to undertake a lessons-learned exercise in early 2010 and report to the Board on the impact of the hedging arrangements implemented by WFP to date.

SECURITY UPDATE

32. Since the attack on the WFP office in Islamabad in October 2009 the Secretariat has taken the following actions to identify and prioritize necessary security enhancements to enable WFP to continue to carry out its mandated programmes and activities:
- security training programmes for senior management, security managers, security officers and all WFP personnel;
 - review, and rigorous and expedited implementation of minimum operating security standards;
 - security assessment missions, associated blast assessments and upgrades of buildings; and
 - an increase in the capacity of WFP to collect, collate, analyse and disseminate information in order to identify threats and trends so as to better assist operational and contingency planning.
33. The Secretariat is optimizing its security coverage within its approved PSA levels by redeploying its security advisors currently stationed at Headquarter to regional bureaux in Johannesburg, Cairo and Bangkok. Two new security advisors will be assigned to the Field Security Division in Headquarters to support field offices in the other regions.
34. Two new posts in security training will be assigned to the Field Security Division to support initiatives including the global security awareness training.
35. These actions do not include those related to building standards and other hardware needs.
36. Although these actions can be covered by existing budgetary allocations, the Secretariat plans to present to the Board a proposal for a comprehensive and sustainable security strategy, which is expected to require additional security resources, at its Annual Session in 2010.

ACRONYMS USED IN THE DOCUMENT

CP	country programme
EMOP	emergency operation
FAO	Food and Agriculture Organization of the United Nations
IDP	internally displaced person
ISC	indirect support costs
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative