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FOURTH UPDATE ON THE WFP MANAGEMENT PLAN (2008–2009)

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

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 and Director, Mr A. Abdulla tel.: 066513-2401
FL*:

Deputy Chief Financial Officer, a.i. Mr S. O'Brien tel.: 066513-2682
and Director, FLB**:

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).

* Finance and Legal Division

** Office of Budget and Financial Planning



EXECUTIVE SUMMARY

This update of the Management Plan (2008–2009) provides an overview of changes in the Programme of Work since the approval of the Plan, and outlines a total Programme of Work of US\$10.9 billion for the biennium.

The 2009 Programme of Work was re-costed to US\$4.8 billion, which is 17 percent lower than was estimated in the third Update of the Management Plan (WFP/EB.2/2008/5-A/1) because of reductions in food and fuel prices. However, new operational requirements in the amount of US\$449 million have arisen since the last update, bringing the new total in this update to US\$5.2 billion for 2009 and US\$10.9 billion for the biennium.

This update also includes an overview of the status of the Programme Support and Administrative Equalization Account, along with the latest forecast for the unearmarked portion of the General Fund.

DRAFT DECISION*

The Board takes note of the projected total Programme of Work for 2008–2009 of US\$10.9 billion, excluding provision for unforeseen emergencies.

* 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. Upon approval of the “WFP Biennial Management Plan (2008–2009)”,¹ the Secretariat reaffirmed its commitment to providing updates on implementation of the Plan during the biennium. During the Second Regular Session of the Executive Board in October 2008, the Board requested that the Secretariat continue to hold regular Executive Board informal consultations on the Plan and to provide regular updates. This is the fourth such update.

BACKGROUND

2. The Biennial Management Plan outlined the expected requirements of current operations and programmes for 2008–2009, which totalled US\$5.4 billion, rising to US\$5.8 billion with indirect support costs (ISC). The Programme Support and Administrative (PSA) budget of US\$345 million took into consideration the expected level of ISC income that could be derived from these requirements, based on historical funding levels and predicted reserve balances.
3. During the first year of the implementation of the Management Plan unprecedented volatility in global commodity markets and large new operational requirements changed many of the assumptions on which the Programme of Work for the biennium was based.
4. The rapid increase in food prices, combined with fuel price rises and a continued decline of the United States dollar against many other WFP operating currencies meant that the Secretariat had to re-cost the Programme of Work during the first year of the biennium as follows:
 - In February 2008 it was estimated that existing requirements for 2008 would cost an additional US\$520 million.
 - In June 2008 it was estimated that existing requirements for 2008 would cost an additional US\$755 million over the original Programme of Work.
 - In October 2008 a revised Programme of Work for 2008–2009 was compiled, on the basis of which it was estimated that US\$1.5 billion of WFP costs over the biennium were attributable to price increases.
5. In addition, more than US\$4 billion in new operational requirements for new and existing operations arose during the first eight months of 2008, including for the Horn of Africa, Afghanistan, the Democratic People’s Republic of Korea (DPRK), Myanmar, the Sudan and Zimbabwe.² The final update of 2008, presented at the Executive Board session in October, outlined a Programme of Work of US\$11.4 billion, a 97 percent increase from the Management Plan presented in October 2007.
6. In October 2008, the Executive Board also approved a supplementary PSA appropriation of US\$66.1 million for the biennium and a one-time allocation of US\$40.8 million funded from the PSA Equalization Account. The supplementary PSA allocations will be used to arrest a reduction in posts previously planned for 2009 under the original PSA budget, and to add a limited number of new posts in select areas.

¹ WFP/EB.2/2007/5-A/1

² As outlined in “Update on the WFP Management Plan (2008–2009)” (WFP/EB.2/2008/5-A/1), page 9.



7. This update provides an overview of the changes in the Programme of Work since the approval of the Management Plan (2008–2009), with particular emphasis on changes since the October 2008 update. The impact of the decline in food prices and the revised Programme of Work are presented, together with an overview of the projected resource level to fund the Programme of Work and a forecasted opening and closing balance of the PSA Equalization Account based on the approved appropriations.
8. The figures for the Programme of Work and funding estimates are as of 8 December 2008. For purposes of International Public Sector Accounting Standards (IPSAS), the 2008 budget presented in this document will be the one to which expenditures will be compared.

FOLLOW-UP TO THIRD UPDATE

9. Since the third update on the Management Plan presented in October 2008, the Secretariat:
 - provided additional information to the Board informally, including additional context for the PSA decisions and further rationale for PSA priorities and posts;
 - arranged a meeting between the Executive Director and the Executive Board Bureau on 10 December to review additional information and to discuss ideas on more extensive interaction with the Board;
 - released this fourth update on the Management Plan on a timely basis with a view to reviewing its contents at an informal consultation prior to the First Regular Session of the Board;
 - plans to redirect US\$1 million of PSA in 2009 from within the current PSA appropriations to the Office of Evaluation for project-specific evaluations, instead of using direct support cost (DSC) funds. This is in direct response to the Board's emphasis on the evaluation function as a priority area and the Food and Agriculture Organization of the United Nations (FAO) Finance Committee advice "to use PSA resources in an innovative manner to possibly reduce direct support costs in an environment of limited resources".³
10. These actions directly address concerns highlighted by the Advisory Committee on Administrative and Budgetary Questions (ACABQ), FAO Finance Committee and the Executive Board during consideration of the third "Update on the WFP Management Plan (2008–2009)".

CHANGES IN THE PROGRAMME OF WORK

11. The operational requirements outlined in the 2008–2009 Management Plan were US\$5.414 billion, to cover intended distribution of 7.8 million mt of food to 90 million beneficiaries.
12. Since the compilation of the Plan, world markets – particularly for food commodities – have undergone fundamental changes. These unprecedented changes led to significant cost increases during the first half of 2008. Food prices have since fallen and are now at the levels prevailing in September 2007. The welcome reduction in food prices means that

³ WFP/EB.2/2008/5(A,B,C,D)/3



WFP can buy more food and feed more beneficiaries with contributions made for operations.

13. During 2008, a number of new operational requirements arose, with 89 million beneficiaries targeted in 2008 and 98.3 million expected to be targeted in 2009.
14. The following sections summarize the re-costing of the Programme of Work to reflect lower prices and new requirements for 2009 that have arisen since the third update on the Management Plan was completed.

Re-Costing of the 2009 Programme of Work

15. Table 1 shows the current re-costing of the 2009 requirements as presented in the third update.

TABLE 1: RE-COSTING OF 2009 REQUIREMENTS (US\$ million)		
	Requirements in Third Update on the Management Plan (October 2008)	Re-Costed Requirements
Food commodities	2 950.2	2 243.5
External transport	595.1	565.3
Landside transport, storage and handling	1 078.4	950.4
Other direct operational costs (ODOC)	223.9	217.2
DSC	500.1	485.1
<i>Sub-total operational requirements</i>	<i>5 347.7</i>	<i>4 461.5</i>
TOTAL (including ISC)	5 722.1	4 773.8

16. The 2009 re-costed requirements are 17 percent lower than in the third update, reflecting the reduction in commodity and fuel prices, along with an increase in the value of the United States dollar, which have reflected positively on the WFP budget. The paragraphs below outline the impact of these factors by cost component.

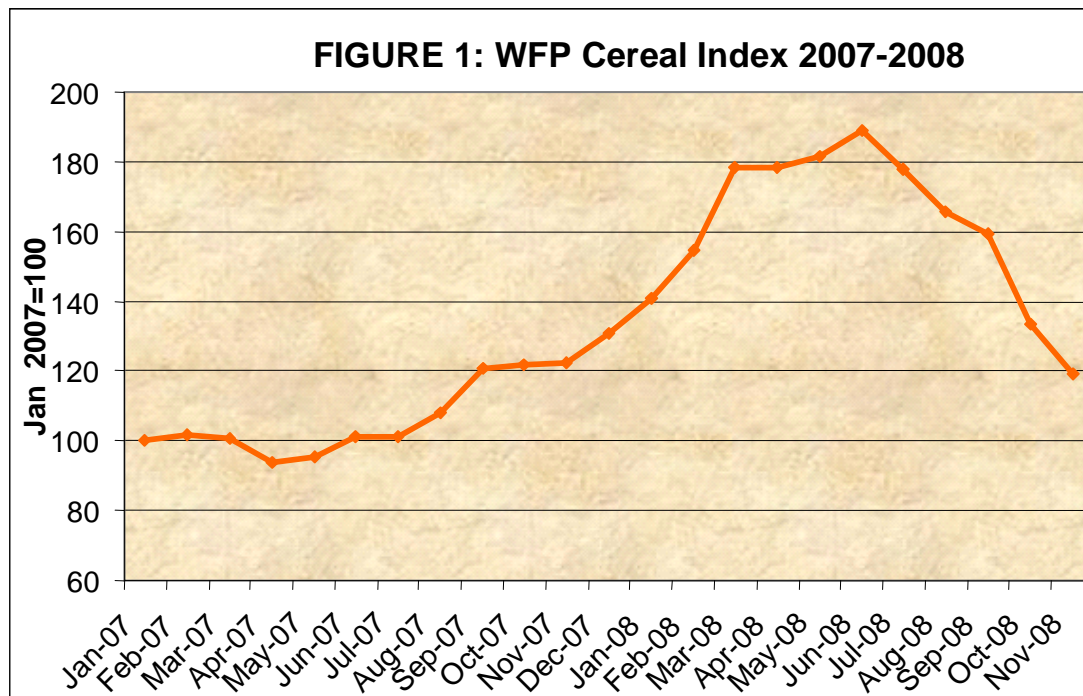
Food Commodities

17. The food commodity budget for 2009 has been reduced by 24 percent to take into account current lower food prices. Over the past year food commodity markets have experienced unprecedented price uncertainty and volatility. In the first half of 2008 prices for WFP's major cereals increased almost daily and were 34 percent higher in June 2008 than in January 2008.⁴ Figure 1 shows the evolution of the WFP Cereal Index in 2007 and 2008.

⁴ As represented by the WFP Cereal Index (comprising maize, wheat, rice and sorghum).



18. From June to November, prices decreased by 37 percent and are now slightly lower than at the beginning of 2008. While it cannot be assumed that prices will remain low (the International Monetary Fund, the World Bank and others note that demand drivers remain in place), the Secretariat has begun to revise project budgets to reflect recent lower prices.



19. Most forecasts issued at the height of the food price crisis expected prices to stabilize at levels below the peaks experienced in 2008 but not to return to previous low levels. Crude oil prices, which have a direct impact on WFP costs (for example through vehicle fuel costs in the field) and an indirect impact (for example through costs of inputs for food production), have also decreased substantially. However, most analysts expect oil prices to rebound from the current lows and to stabilize in 2009 and beyond. The United States dollar has also strengthened against most major currencies, which so far has led to lower costs for WFP.

External Transport

20. Shipping costs have also decreased substantially from peaks experienced in mid-2008. However, the decrease in external transport costs for WFP is estimated to be only 5 percent. The decreases in container rates for major trade routes have not trickled down to the trade niche in which WFP is involved. Prices on the charter market, which is affected almost exclusively by supply and demand factors, have recently lowered; however, WFP charters smaller vessels that are in short supply because the trend over the past decade has been to build larger vessels. Finally, port congestion has become an issue in major WFP ports such as Dar es Salaam, Djibouti, Durban and Mombasa, which pushes up freight rates because of demurrage costs.

Landside Transport, Storage and Handling

21. The LTSH rates for WFP operations are expected to decrease by 12 percent from rates used in the previous update. In 2006 it was estimated that 25 percent of LTSH costs were related to fuel prices.⁵ Fuel prices decreased by 52 percent between August and November 2008, which is expected to translate into a 13 percent decrease in LTSH costs. However, it is important to note that in-country prices and local transport conditions have the largest impact on LTSH costs. In some countries – such as the Sudan, which accounts for 20 percent of WFP operational requirements – fuel prices have not changed significantly. Some LTSH savings were achieved in other countries by opening new supply corridors, as in Afghanistan.

Other Direct Operational Costs and Direct Support Costs

22. ODOC and DSC are both expected to decrease by 3 percent. The strengthening of the United States dollar against most currencies has lowered ODOC and DSC at the field level. Decreases in fuel prices have also led to reduced vehicle operation costs, which is reflected in these two cost categories.

23. However, as presented previously, standard staff costs for international staff have increased in 2009 by 9 percent on average, driving up DSC costs. In addition, increasing insecurity in duty stations such as Khartoum and Pakistan, which have recently become eligible for additional incentives, have led to increased DSC costs. The largest increases in requirements, outlined below, are in difficult operational areas that have higher DSC rates.

New Operational Requirements

24. Since the third Management Plan update, unexpected new requirements and expansions of existing programmes have increased the Programme of Work, with new emergencies developing in Bangladesh, Chad, Haiti and Pakistan and major new requirements arising in the Democratic Republic of the Congo, Ethiopia and other countries listed below. Table 2 shows the countries where there are significant increases in operational requirements. A total of US\$449 million in new requirements has arisen since the third Management Plan update was compiled.

⁵ “Analysis of WFP Cost Components” (WFP/EB.A/2006/6-G/1)



TABLE 2: NEW OPERATIONAL REQUIREMENTS (US\$ million)	
Bangladesh	141
Democratic Republic of the Congo	73
Pakistan	46
Ethiopia	44
Chad	42
Yemen	23
Nepal	16
Haiti	11
DPRK	10
Other	37
TOTAL NEW REQUIREMENTS	449

Programme of Work 2008–2009

25. The 2008 Programme of Work requirements remained similar to the level estimated in the third update, because most operations were implemented during when prices were high. The 2009 Programme of Work was re-costed to US\$4.8 billion; however, new requirements of US\$449 million bring the new total to US\$5.2 billion for 2009 and US\$10.9 billion for the biennium, excluding any provision for future unforeseen emergencies.
26. The Programme of Work for 2008 and 2009, as calculated at 30 November 2008, is shown in Table 3.

TABLE 3: PROGRAMME OF WORK, 2008 AND 2009 (US\$ million)						
	Third Update			Fourth (current) Update		
	2008	2009	2008–2009	2008	2009	2008–2009
Food commodities	2 732	2 950	5 682	2 715	2 485	5 201
External transport	583	595	1 178	567	592	1 159
LTSH	1 079	1 078	2 157	1 072	1 031	2 103
ODOC	386	224	610	396	262	658
DSC	529	500	1 029	509	511	1 020
Total	5 308	5 348	10 656	5 259	4 882	10 141
ISC	371.59	374.34	745.94	368.14	341.72	709.86
TOTAL	5 680.07	5 722.08	11 402.16	5 627.30	5 223.45	10 850.74



PROJECTED RESOURCE LEVELS

27. The original 2008–2009 Management Plan (October 2007) was based on an overall income projection of US\$5.2 billion, which represented 90 percent funding of the US\$5.8 billion Programme of Work outlined in the document. The subsequent doubling of the Programme of Work to US\$11.4 billion and the food price crises elicited a generous donor response; the funding projection was increased to US\$8 billion. This represented 70 percent of the projected Programme of Work.
28. Although the Secretariat is committed to funding the entire Programme of Work, management considers an anticipated funding level of US\$8 billion to be a prudent basis for PSA planning purposes. Therefore, the ISC income projection and the PSA expenditure proposal remain unchanged from the third update (November 2008).

STATUS OF THE PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT

29. The PSA Equalization Account forecast, shown in Table 4, is unchanged from the third update. The balance is expected to increase by US\$36.8 million over the biennium.

TABLE 4: PSA EQUALIZATION ACCOUNT (US\$ million)		
	2008–2009 PSA	PSA Equalization Account forecast 2008–2009
1 January 2008 opening balance		8.6
Transfer from DSC Advance Facility, approved in original Management Plan (October 2007)		24.1
2008–2009 ISC income		480.0
Approved in original Management Plan	(345.0)	
2008 forecast foreign exchange impact	(15.0)	
Proposed 2008 supplement	(10.4)	
Proposed 2009 supplement	(56.1)	
Total revised PSA 2008–2009		(426.5)
One-time allocations		(40.8)
31 December 2009		45.4

30. The Secretariat recognizes the importance of keeping the PSA Equalization Account balance under review and will continue to monitor ISC income and PSA expenditures. The Executive Board will be updated on the status of this account throughout the biennium.



Status of the General Fund

31. The General Fund is an accounting entity used for recording ISC recoveries from projects and miscellaneous income that is not earmarked for any particular programme activity. ISC income is recorded in the PSA Equalization Account, which is a subset of the General Fund.
32. The main income source for the unearmarked portion of the General Fund is interest income; thus, market conditions and interest rates have a large impact on the General Fund. WFP has not been immune to the financial market crisis; extreme market volatility throughout 2008 affected the performance of its short-term investment portfolio. In the first half of 2008 positive interest income earnings offset some of the losses. However, the net impact on the unearmarked portion of the General Fund over the first 11 months of 2008 amounted to a loss of US\$20 million. In the 2008 financial statements this loss will be recognized based on the mark-to-market principle, in accordance with IPSAS.
33. The return on the short-term investment portfolio since its inception in February 2000 is satisfactory (3.4 percent per annum as of 31 October 2008). However, the Secretariat has determined that the volatility necessary to realize better-than-average yield is an unacceptable risk. Accordingly, the Secretariat is working with the investment advisor and investment managers to assume a more conservative position and has:
 - terminated the contract of the investment manager responsible for the largest proportion of under-performance holdings;
 - implemented new, more conservative investment guidelines;
 - reduced the size of the short-term investment portfolio (and correspondingly increased money market holdings); and
 - shifted to a reduced-risk portfolio.
34. Additionally, the Secretariat has taken a conservative position on projected interest income. Given that central banks are lowering interest rates, WFP's interest income forecast for the 2008–2009 biennium has been reduced to zero.
35. However the General Fund has received miscellaneous income during 2008 of approximately US\$8 million and expects to receive a similar amount in 2009. A projection of US\$16.0 million miscellaneous income for 2008–2009 has therefore been included in Table 5.
36. The latest forecast for the unearmarked portion of the General Fund is shown in Table 5.



TABLE 5: UNEARMARKED PORTION OF THE GENERAL FUND (US\$ million)	
	General Fund forecast
31 December 2007 balance	52.8
2008–2009 interest income	0
2008–2009 miscellaneous income	16.0
2008–2009 General Fund expenditures	
United Nations Department of Safety and Security (EB decision 2007/EB.2/4, para. vii)	(26.6)
Private-sector fundraising loan (EB decision 2008/EB.1/4)	(9.0)
Transition fund (EB decision 2007/EB.2/4, para. vi)	(10.6)
Replenishment of operational reserve (EB decision 2008/EB.A/4, para. ii)	(5.9)
WINGS II (EB decision 2008/EB.A/6, para. iii)	(7.5)
Security Fund (EB decision 2008/EB.A/6, para. ii)	(5.0)
31 December 2009	4.2



ANNEX

INDICATORS

1. This Annex contains the indicators used to monitor the financial parameters of WFP. The Secretariat has been following these parameters; reporting on them has been initiated in response to requests from the Board and will be expanded in the future.
2. The financial indicators used are: i) unit costs for food projects; ii) indices of international prices for cereals and crude oil; and iii) ISC income and PSA expenditure.

UNIT COSTS FOR FOOD PROJECTS

3. Following the method set out in the WFP analysis of cost components¹ and followed in Annual Performance Reports (APRs), unit costs for food projects² are analysed on the basis of cost per mt of food distributed. Table 6 shows the evolution of unit costs for each cost component.

TABLE 6: WFP COST COMPONENTS FOR FOOD PROJECTS (US\$ million)					
	Actual			Budgeted	
	2004–2005	2006	2007	2008	2009
Total expenditure					
Food	2 147.7	943.6	1 173.0	2 715.33	2 485.23
External transport	524.5	242.1	218.0	567.28	591.64
LTSH	1 240.2	720.3	600.0	1 071.67	1 031.46
ODOC	109.1	52.5	59.0	143.92	132.31
DSC	446.8	272.0	265.0	466.27	489.14
Total	4 468.3	2 230.5	2 315.0	4 964.47	4 729.78
Rate per mt					
Food	269.6	250.0	333.0	471.64	421.60
External transport	65.8	59.9	66.1	98.53	100.37
LTSH	155.7	178.3	181.8	186.14	174.98
ODOC	13.7	13.0	17.9	25.00	22.45
DSC	56.1	67.3	80.3	80.99	82.98
TOTAL	560.9	552.1	701.5	862.30	802.37
Distribution (mt million)	7.97	4.04	3.3	5.76	5.89

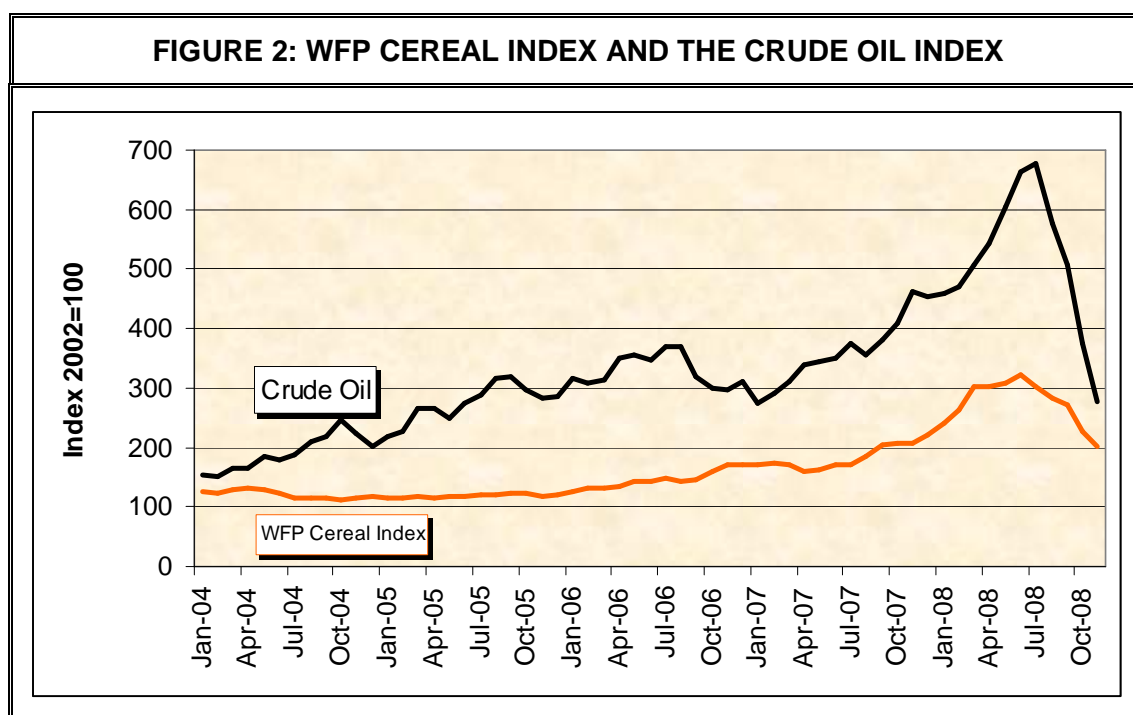
¹ “Analysis of WFP Cost Components” (WFP/EB.A/2006/6-G/1)

² Expenditures for Special Operations with no food component are excluded.



PRICE INDICES

4. The WFP Cereal Index is intended to broadly represent the impact of changing prices on the cost of WFP cereals. It comprises four commodities: wheat, maize, sorghum and rice. The price of the WFP cereal basket, calculated as the weighted average of these four cereals, is indexed from 1 January 2002. The weight of each cereal in the index is based on their value in the 2007 WFP food basket. Wheat accounts for 28.2 percent of the index, maize 23.8 percent, and sorghum and rice 24.0 percent each. Prices are based on the FAO International Commodity Prices database.
5. The crude oil index tracks the price of crude oil, indexed from January 2002. It is based on Brent crude oil futures. Figure 2 shows the WFP Cereal Index and the Crude Oil Index from January 2004 to October 2008.



INDIRECT SUPPORT COSTS INCOME AND PROGRAMME SUPPORT AND ADMINISTRATIVE EXPENDITURE

6. The Secretariat regularly monitors PSA expenditure and ISC income to ensure that funding is available to cover support cost expenditure. Table 7 shows ISC income and PSA expenditure for 2002–2009.

	2002	2003	2004	2005	2006	2007	2008	2009
ISC	144	209	204	162	159	166	252	228
PSA	98	134	173	212	212	214	203	225
Surplus/Deficit	46	75	31	-50	-52	-48	49	3



ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
APR	Annual Performance Report
DPRK	Democratic People's Republic of Korea
DSC	direct support costs
FAO	Food and Agriculture Organization of the United Nations
IPSAS	International Public Sector Accounting Standards
ISC	indirect support costs
LTSH	landside transport, storage and handling
ODOC	other direct operational costs
PSA	Programme Support and Administrative