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Agenda item 9

For approval

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BUDGET INCREASES TO PROTRACTED RELIEF AND RECOVERY OPERATIONS ARISING FROM FOOD COMMODITY AND OTHER PRICE INCREASES



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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

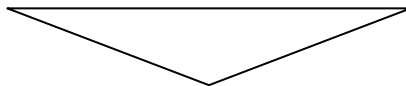
The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Deputy Chief Operating Officer: Mr R. Lopes da Silva tel.: 066513-2404

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 approves the technical budget revisions for the projects detailed in “Budget Increases to Protracted Relief and Recovery Operations Arising from Food Commodity and Other Price Increases” (WFP/EB.A/2008/9-C/2).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (WFP/EB.A/2008/16) issued at the end of the session.



1. In January 2008, WFP implemented a review and, where necessary, a technical revision of all the project budgets of its active projects approved prior to 1 January 2008. The review was a response to several factors that have had an impact on project budgets, particularly the recent marked increase in commodity costs, rising fuel prices and a weakening of the US dollar. The review engaged staff in country offices and regional bureaux, and from the Programme Design and Support Division, the Logistics Division, and the Finance and Legal Division at Headquarters.
2. There were 104 operations identified as requiring technical revision, which included a full review of the commodity budget, taking particular account of the type of commodities required for each operation, whether the project was expected to receive in-kind or cash contributions, and whether commodities would be purchased on local, regional or international markets. These factors also have a direct impact on transport and support cost budgets.
3. The summary table below provides details on the number of projects and value of the revisions according to the project category and the approval level.

Approval level	WFP Executive Board		WFP Executive Director/FAO Director-General		WFP Executive Director		WFP Regional Director		Total revisions and US\$ value	
	Number of projects	US\$ value of revision	Number of projects	US\$ value of revision	Number of projects	US\$ value of revision	Number of projects	US\$ value of revision	Number of projects	US\$ value of revisions
EMOPs	0	-	3	26 838 791	0	-	5	6 961 242	8	33 800 033
PRROs	8	564 942 669	0	-	21	252 429 535	23	40 046 091	52	857 418 295
DEV/CPs	25	339 656 467	0	-	0	-	19	41 691 162	44	381 347 629
Total	33	904 599 136	3	26 838 791	21	252 429 535	47	88 698 495	104	1 272 565 957

4. Commodity costs for international purchases were updated using commodity rates provided by the Food Procurement Branch. Commodity costs for in-kind contributions were provided by the donors, and for local and regional purchases by country offices and regional bureaux.
5. External transport rates were reviewed by the Shipping Branch, using current information on worldwide shipping rates. Strongly rising rates were posted in 2007, in both the charter and liner sectors. Increased freight rates are a result partly of higher fuel costs, but also of increased trade volumes in general. Project budgets have therefore been adjusted for projects that are expected to purchase increased volumes on the international market, those that will receive significant in-kind contributions, and in cases where transport rates had not been aligned previously to reflect increased costs.
6. Country offices reviewed and, where appropriate, updated project landside transport, storage and handling (LTSH) rates following normal procedures for LTSH reviews. More than 85 percent of WFP's LTSH expenditures are in Africa, where operating expenses are under constant pressure from local increases due to inflation and exchange rate fluctuation. These affect LTSH, particularly at the port entry level through higher port taxes, levies and handling costs. Ports are more frequently congested and vessel discharge is delayed, resulting in higher transport fees on land and increased storage costs.



7. Higher costs of fuel, tyres and lubricants also contributed significantly to increases in transport expenditure. These costs account for between 45 and 70 percent of running costs in the African trucking industry. Fuel costs alone account for about 25 percent of total LTSH costs. Relatively poor road conditions in Africa contribute to higher maintenance costs for truck fleets. Increasingly, governments impose axle weight limitations to prevent the deterioration of national road networks, and these further increase transport costs. Secondary transport and distribution expenditures per metric ton have doubled since 2005.
8. Direct support costs (DSC) were reviewed by country offices and adjusted where necessary to take account of the new standard rates for international staff for 2008–2009; both DSC and other direct operational costs (ODOC) were reviewed in the light of foreign exchange fluctuations. The value of the US dollar relative to other currencies has a direct impact on DSC and ODOC, because a significant portion of expenditures for these cost categories – including local staff charges, recurring office costs and implementing partner costs – are incurred in-country and denominated in local currencies.
9. Arising from this review, eight of the technical revisions for protracted relief and recovery operations (PRROs) involving no change to the food basket require Executive Board approval. Projects with a change to the food basket have gone through the usual approval process. The total food value of these increases is US\$429,881,352, and the total cost of these budget increases is US\$564,942,669, including indirect support costs (ISC). Detailed budget figures for each increase are given in the following table.

**ANNEX: BUDGET INCREASES TO PROTRACTED RELIEF AND RECOVERY OPERATIONS ARISING
FROM FOOD COMMODITY AND OTHER PRICE INCREASES**

Region/ country	Project number	Title (duration)	Previous budget			Amount of revision			Revised budget		
			Food cost (US\$)	Other costs (excl. ISC) (US\$)	Total WFP cost (inc. ISC) (US\$)	Food cost (US\$)	Other costs (excl. ISC) (US\$)	Total WFP cost (inc. ISC) (US\$)	Food cost (US\$)	Other costs (excl. ISC) (US\$)	Total WFP cost (inc. ISC) (US\$)
Asia											
Afghanistan	10427.0	Post-Conflict Relief and Rehabilitation in the Islamic Republic of Afghanistan (2006–2008)	213 586 279	207 350 662	450 402 527	47 358 808	6 033 231	57 129 482	260 945 087	213 383 893	507 532 009
<p><i>Details of revision:</i> The increase in commodity budget of US\$47,358,808 (22%) is due mainly to increased prices of cereals, which constitute approximately 75% of the food basket. Previous budget revisions in early 2008 had already updated the commodity cost for a portion of the food basket. The external transport budget has increased by US\$6,033,231 owing to a corresponding increase in transport costs.</p>											
Middle East, Central Asia and Eastern Europe											
Occupied Palestinian Territory	10387.1	Targeted Assistance for Relief, Support to Productive Activities and Skills Development of Vulnerable Non-Refugee Palestinians (2007–2009)	70 882 179	34 593 667	112 859 156	35 168 005	11 147 253	49 557 326	106 050 184	45 740 920	162 416 482
<p><i>Details of revision:</i> The project budget was originally prepared in late 2006, shortly before commodity costs started to increase significantly. The overall commodity increase (50%) is mainly because of a doubling of cereal prices, which represent 80% of the food basket. The food prices of the project's in-kind contributions have also risen dramatically: 67% for wheat flour and 42% for vegetable oil. As a result of the increase in transport rates since the project was approved (in particular for shipments from the United States) and increased fuel costs, the external transport budget has increased by US\$10,118,587. Increases in DSC are linked mainly to the new standard staff rates for international staff and increased fuel costs.</p>											
East, Central and Southern Africa											
Uganda	10121.2	Targeted Food Assistance for Relief and Recovery of Refugees, Displaced Persons and Vulnerable Groups (2008–2011)	187 385 086	166 704 686	378 876 056	65 884 285	2 436 061	73 102 770	253 269 371	169 140 747	451 978 827
<p><i>Details of revision:</i> The increase in the commodity budget of US\$65,884,285 (35%) is a direct result of commodity price increases since the original project budget estimate of mid-2007. Costs for cereals have risen by 38%, for mixed and blended foods by 34%, for pulses by 28%, and for vegetable oil by 40%. The increase in DSC budget of US\$2,436,061 is attributable to application of the 2008–2009 standard staff rates for international and national staff, and increased fuel prices.</p>											



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Burundi	10528.0	Support to the Stabilisation and Recovery of Burundi: Protect and Create Livelihoods while Improving the Nutritional Status of the Most Vulnerable (2007–2008)	50 493 827	56 568 249	114 556 421	27 944 343	- 938 814	28 895 917	78 438 170	55 629 435	143 452 338
<p><i>Details of revision:</i> The commodity budget has increased by US\$27,944,343 (55%) as a result of a 120% increase in the price of vegetable oil, which comprises 36% of the food basket, a 66% increase in the cost of pulses from regional/international purchases and in-kind contributions, and a 44% increase in the cost of cereals, partially due to an increase in commodity costs and partially to a shift from local to regional procurement. The external transport budget has reduced by US\$885,441 because the expected level of international purchases has decreased. The LTSH budget has also decreased (by US\$711,153) as more commodities are resourced locally/regionally (forecast overseas imports have decreased from 45% to 25%, with corresponding reductions in overland costs). The increase in DSC of US\$657,780 is mainly attributable to the increased standard staff rates for international staff and an increase in vehicle running/maintenance costs to cover recently increased fuel costs.</p>											
Malawi	10586.0	Assistance to Food-Insecure People Suffering from the Effects of Natural Disasters and HIV/AIDS (2008–2010)	63 332 368	30 942 127	100 873 710	29 156 164	- 3 117 644	27 861 216	92 488 532	27 824 483	128 734 926
<p><i>Details of revision:</i> The commodity budget has increased by US\$29,156,164 (46%), principally because of increased costs of cereals and pulses, which make up the bulk of the commodity budget and have increased by 43% and 39% respectively since the project was designed in mid-2007. Average cost increases of 29% for vegetable oil and 24% for blended foods have also contributed to the increased cost of commodities. There is a reduction in the external transport budget of US\$834,935. The ODOC decrease of US\$2,162,264 is mainly due to a reduction in the costs of contracted services. Staff reductions have reduced the DSC budget by US\$120,445.</p>											
Zimbabwe	10595.0	Protracted Relief for Vulnerable Groups (2008–2010)	127 807 464	141 156 885	287 791 854	24 693 411	4 498 533	31 235 380	152 500 875	145 655 418	319 027 233
<p><i>Details of revision:</i> The commodity budget has increased by US\$24,693,411 (19%) as a direct result of the increased commodity prices for vegetable oil (28%), mixed and blended foods (34%), pulses (11%) and cereals (9%) since the commodity budget was created in late 2007. The preponderance of cereals explains the increased weighted average of commodity costs. The increase in DSC budget of US\$1,902,310 is due to application of the new standard staff rates for international staff, and a foreseen 15% increase in national staff salaries.</p>											



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Democratic Republic of the Congo	10608.0	Targeted Food Aid for Victims of Armed Conflict and other Vulnerable Groups (2007–2009)	71 849 680	143 953 124	230 909 000	27 017 013	16 570 167	46 638 282	98 866 693	160 523 291	277 547 282
<p><i>Details of revision:</i> The commodity budget has increased by US\$27,017,013 (38%). Since the original budget was approved in early 2007, the price of cereals has increased by an estimated average of 31%, pulses by 44%, mixed and blended foods by 41% and vegetable oil by 38%. The external transport budget has increased by US\$8,765,384 as a result of higher transport prices, including fuel and in-kind shipments costs. The increase of the LTSH budget by US\$3,249,906 is caused by a 23% increase in transport costs, partly because of rising fuel prices, and partly increased intermediate storage and handling costs. The DSC budget has increased by US\$4,534,752 owing to application of the new standard staff rates for international and national staff, and increased fuel prices.</p>											
Ethiopia	10665.0	Responding to Humanitarian Crisis and Enhancing Resilience to Food Insecurity (2008–2010)	275 324 284	249 859 590	561 946 745	172 659 323	61 473 664	250 522 296	447 983 607	311 333 254	812 469 041
<p><i>Details of revision:</i> The commodity budget has increased by US\$172,659,323 (63%). When the project was designed in early 2007, it was planned that 44,000 mt of cereals would be procured locally. The recent ban on such procurement means that these cereals will now have to be sourced internationally at a cost 82% higher than originally budgeted. For the remainder of the food basket, prices have increased by an average of 62% for cereals, 75% for pulses, 81% for blended foods and 43% for vegetable oil. Increased trade costs in general and increases in the cost of fuel, together with the shift from local to international procurement for cereals, has led to an increase in the external transport budget of US\$53,843,376. The DSC budget has increased by US\$5,669,528 owing to application of new standard staff rates for international and national staff, and increased fuel costs.</p>											
The total costs of the above budget increases amount to:											
Food costs:		US\$ 429 881 352									
Other costs:		US\$ 98 102 451									
Total cost to WFP:		US\$ 564 942 669									



ACRONYMS USED IN THE DOCUMENT

CP	country programme
DEV	development project
DSC	direct support cost
EMOP	emergency operations
FAO	Food and Agriculture Organization of the United Nations
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
ISC	indirect support cost
LTSH	landside transport, storage and handling
ODOC	other direct operational cost
PRRO	protracted relief and recovery operation