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**Executive Board
Annual Session**

Rome, 4–8 June 2007

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval



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UPDATE ON THE WFP MANAGEMENT PLAN (2006–2007)



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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 points indicated below, preferably well in advance of the Board's meeting.

Deputy Executive Director, AD: Ms S. Malcorra tel.: 066513-2007

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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:

- i) takes note of the progress made on the WINGS II project and its current funding status, as outlined in paragraphs 14-19;
- ii) approves that the US\$10 million advance approved by the Board in the First Regular Session 2007 from the WFP General Fund to the WINGS II Special Account be converted into a grant;
- iii) approves a further grant from the General Fund to the WINGS II Special Account to cover WINGS II expenditure up to a maximum of US\$24 million for the remainder of the 2006–2007 and 2008–2009 biennia;
- iv) looks forward to regular reports on the WINGS II project.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.A/2007/15) issued at the end of the session.



INTRODUCTION

1. In the discussion of the Biennial Management Plan (2006–2007) at the Second Regular Session of the Board in November 2005, the Secretariat reaffirmed its commitment to provide updates on the implementation of the plan during the biennium. This is the fifth such update.

BACKGROUND

2. The Biennial Management Plan (2006–2007) used a needs-based methodology for programme costs, while the setting of the Programme Support and Administrative (PSA) budget took into consideration the expected level of resources based on historical funding levels.
3. The Secretariat recognizes that the level of funding projected may not be available from donors. It is therefore continuously reviewing the operational level, funding forecasts and indirect support cost (ISC) income to ensure that the PSA expenditure levels are sustainable.
4. This Update note provides an overview of where the organization stands vis-à-vis the Operational Budget presented in the Management Plan and an overview of the implementation of the PSA budget and the status of the PSA Equalization Account.
5. Furthermore, the note provides a brief update on the WINGS II project implementation as well as a request for funding to finalize the project.

OPERATIONAL OVERVIEW

6. The biennial Programme of Work – all the direct costs outlined in the Biennial Management Plan – was US\$5.8 billion, of which 45 percent represented food commodities, 12 percent external transport, 24 percent landside transport, storage and handling (LTSH), 8 percent other direct operational costs (ODOC) and 11 percent direct support costs (DSC).
7. Since the approval of the Biennial Management Plan, the Programme of Work had increased by approximately US\$171 million to US\$5.965 billion as at 10 April 2007. An overview of the major changes and adjustments in the biennial Programme of Work is provided in Table 1.
8. The revised Programme of Work represents an increase of US\$47 million since the last Management Plan Update provided at the First Regular Session of the Executive Board in 2007.

TABLE 1. CHANGES TO THE PROGRAMME OF WORK US\$ MILLION			
Original Programme of Work (Management Plan)			US\$5 793
Changes and Adjustments to Programme of Work	Original Budget	New Budget	Change (+/-)
Kenya EMOP	-	254	254
Democratic People's Republic of Korea (DPRK) EMOP	459	-	-459
DPRK PRRO	-	83	83
Indonesia PRRO	68	133	65
Pakistan PRRO	-	61	61
Pakistan SOs	-	60	60
Niger PRRO	-	46	46
Lebanon SO	-	37	37
Indonesia SO	-	36	36
Central African Republic PRRO	10	36	26
Sri Lanka PRRO	35	61	26
Mali PRRO	3	27	24
Philippines EMOPs	-	22	22
Lebanon EMOP	-	20	20
Tanzania EMOP	-	16	16
Somalia SOs	-	16	16
Kenya SO	-	15	15
Nepal EMOP	-	13	13
Afghanistan PRRO	260	233	-27
Other adjustments*			-163
Sub-total Revised			171
Revised Programme of Work			US\$5 965

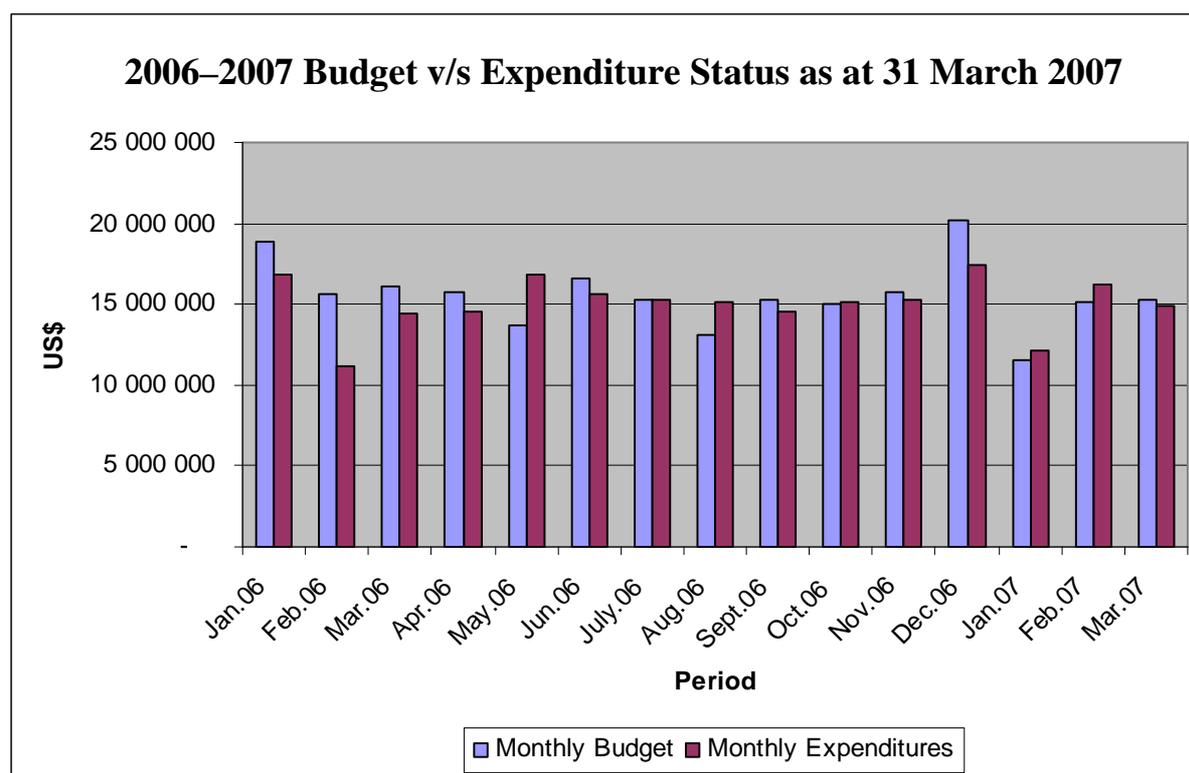
* The reduction of US\$163 million takes into account the higher-than-expected carryover stock from 2005 as well as estimated adjustments to closing stocks.

PROGRAMME SUPPORT AND ADMINISTRATIVE EXPENDITURES

9. For the 2006–2007 biennium, the Executive Board approved a PSA budget of US\$374.6 million, including carryover allotments and departmental capital expenditures. At the end of March 2007, budgetary expenditure against these allotments amounted to US\$231.7 million, equivalent to 62 percent of the approved budget. The budgeted amount for the same period was US\$233.7 million.



Figure 1



PROJECTED RESOURCE LEVELS

10. The current forecasted contribution level of US\$5.6 billion for the biennium is unchanged since the last Management Plan Update¹, however, based on the ISC generated in 2006, the Secretariat feels it is appropriate to revisit the ISC projection.
11. During 2006, ISC income totalled US\$161.5 million. Total contribution income for the same period was US\$2,739.7 million. The realized ISC rate for 2006 was therefore 6.3 percent rather than the approved 7 percent.
12. The Programme realized a lower rate because ISC was not charged on un-utilized and reprogrammed contribution balances. A lower ISC rate is applied to Bilateral Operations and Trust Funds and a limited number of waivers are made on ISC, in line with General Rule XIII.4.
13. The ISC forecast for the current biennium has therefore been revised downwards, from US\$352 million to US\$332 million. The ISC forecast in the Biennial Management Plan 2006–2007 was US\$327 million.

WINGS II SPECIAL ACCOUNT

14. At the Board's 2006 Second Regular Session, WFP proposed to fund WINGS II through a combination of PSA and direct donor contributions (WFP/EB.2/2006/5-F/1). Solicitations for direct donor contributions started immediately, however to ensure that

¹ WFP/EB.1/2007/6-A/1



project implementation would continue smoothly, the Board approved a US\$10 million advance from the General Fund to the WINGS II Special Account in the last Update to the WFP Management Plan, (WFP/EB.1/2007/6-A/1).

15. The Secretariat continued to try to secure direct donor contributions, however since then there has been no further progress in this area mainly because the WINGS II project does not fall within the scope of most donors' budget lines. For this reason, a number of Board members have indicated that the General Fund would be a more appropriate means of funding capital expenditure relating to systems development and infrastructure enhancement.
16. The question of WINGS II funding has now reached a critical point. The project is completing the design phase and is about to enter the realization phase where it must undertake large-scale contractual commitments for final configuration and deployment. This phase, which will extend into the next biennium, can only begin if the project enjoys secure funding for both biennia.
17. Taking these factors into account, we request that the Executive Board approve (a) the conversion of January's US\$10 million advance into a grant from the WFP General Fund, and (b) a further grant of US\$24 million from the General Fund to guarantee the completion of the WINGS II project. Added to the initial US\$15 million already allocated to WINGS II, this will bring the total funding for the project to the required US\$49 million. Of this sum, it is currently estimated that a total of US\$32 million will be used in this biennium and the remaining US\$17 million in the 2008–2009 biennium. This breakdown between biennia will be confirmed in the Biennial Management Plan 2008–2009.
18. It is intended that amounts adding up to this value will be transferred as needed into the WINGS II Special Account.
19. As outlined in the last Update of the WFP Management Plan² and in Note 18 of the 2006 Financial Statements³, the un-earmarked portion of the General Fund has a sufficient balance to absorb this additional request.

PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT

20. As mentioned in previous updates, the actual balance of the PSA Equalization Account at 31 December 2005 was US\$44 million higher than expected. As outlined above, the current ISC income forecast is US\$5 million higher than the US\$327 million envisaged.
21. In addition, the PSA Equalization Account forecast has been updated as follows:
 - The Capital and Capacity Funds expenditure forecast has been increased to include the amount approved by the Board at its Annual Session in 2006.
 - An amount of US\$7 million has been included to fund the general service staff salary increase as approved by the Board at its First Regular Session in 2007.

² WFP/EB.1/2007/6-A/1 – Paragraph 54 and Corrigendum to the update on the WFP Management Plan (2006–2007) paragraph 55 (WFP/EB.1/2007/6-A/1/Corr.1).

³ WFP/EB.A/2007/6-F/1/1



22. The latest forecast for the PSA Equalization Account is therefore outlined in Table 2.

TABLE 2. PSA EQUALIZATION ACCOUNT 2006–2007		
	PSA Equalization Account forecast presented in Management Plan 2006–2007	Current PSA Equalization Account forecast
Opening Balance 1 January 2006	78	122
2006–2007 ISC income	327	332
2006–2007 PSA expenditure	(368)	(375)
2006–2007 Capital and Capacity Funds	(25)	(28)
General service staff cost increase	-	(7)
Transfer to IRA	-	(20)
31 December 2007 Forecast	12	24

23. In the Review of the Indirect Support Cost Rate (WFP/EB.A/2006/6-C/1), a target level of the PSA Equalization Account of US\$66 million was established for the 2006–2007 biennium to ensure a reserve sufficient for four months of indirect expenditures.
24. The current forecasted balance for 31 December 2007 is therefore below the target level, representing less than 2 months of PSA expenditures. It should be noted that the ISC income forecast does not include the possible impact of unforeseen emergencies during the remainder of 2007.

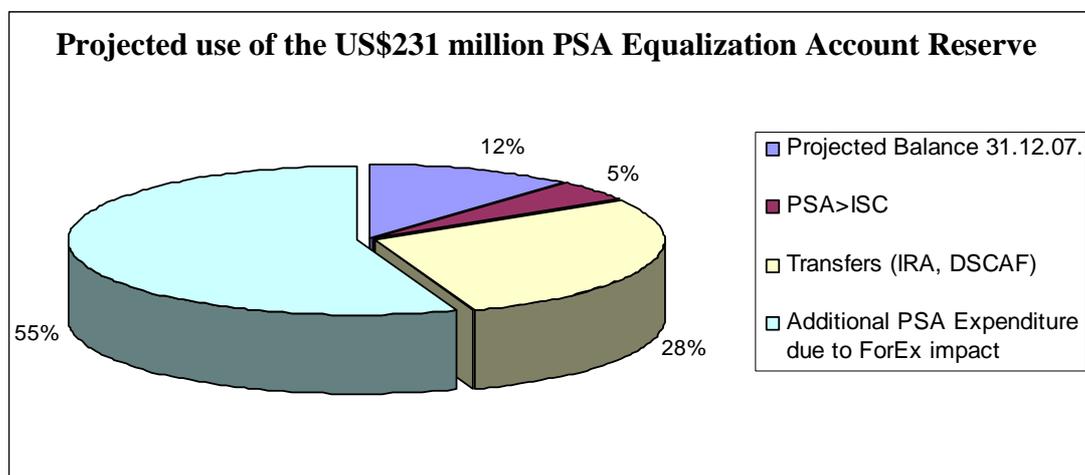
PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT-IMPACT 2008–2009

25. A PSA Equalization Account balance of US\$231 million on 31 December 2003 was built up during the 2002–2003 biennium, primarily as a result of the increased level of activity and donor support during that biennium and a change to the accounting policy which accelerated the recognition of income.
26. This balance (reserve) has allowed the organization to invest in additional capacity in the last two biennia as well as providing much-needed injections to some of our advance financing mechanisms, as approved periodically by the Board.
27. The reserve has also protected the organization from the immediate impact of changes in the Euro/US\$ exchange rate. For example, the 2002–2003 biennial budget was based on an assumed Euro/US\$ rate of US\$0.88 to €1. The current biennial PSA budget is based on an equivalent rate of US\$1.30 to €1 and the 2008–2009 PSA budget, with the current outlook, is expected to be based on an assumed rate of at least US\$1.33 to €1.
28. Since 2001, this trend in the foreign exchange rate has added 50 percent to the organization's Euro-based costs. The biggest impact is within PSA expenditures, of which approximately 70 percent is effectively denominated in Euro.
29. Since a large portion of WFP income is in non-Euro currencies, this exchange rate movement did not result in an equivalent increase in ISC income. In addition, the ISC rate was not increased to generate additional funds for the increased cost.



30. The impact of these issues on the reserve balance from 1 January 2004 to 31 December 2007 is indicated in Figure 2.

Figure 2



31. As indicated above, the balance of the PSA Equalization Account going into the next biennium is expected to be lower than the current target level established by the Board. In view of the expected PSA Equalization Account balance at 31 December 2007, the 2008-2009 PSA budget will be primarily based on the projected levels of ISC income for the biennium.
32. This is a change from the methodology used in the current biennium where the PSA level was set in excess of foreseen ISC income on the assumption that additional emergencies would arise and therefore increase ISC income. This change in methodology would mean that any additional ISC received during the next biennium as a result of unforeseen emergencies would be used either to increase the PSA Equalization Account balance to the target level approved by the Board or for one-off capacity investments under appropriate Board approval.
33. These issues will be further developed and defined during the preparation of the Biennial Management Plan 2008–2009.

ACRONYMS USED IN THE DOCUMENT

AD	Administration Department
CFOB	Office of Budget and Financial Planning
DPRK	Democratic People's Republic of Korea
DSC	direct support costs
DSCAF	Direct Support Cost Advance Facility
EMOP	emergency operation
IRA	Immediate Response Account
ISC	indirect support cost
LTSH	landside transport, storage and handling
ODOC	other direct operational costs
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative
SO	Special Operation
WINGS	WFP Information Network and Global System