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For consideration

ANALYSIS OF WFP COST COMPONENTS

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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.

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EXECUTIVE SUMMARY

During discussion of the Management Plan at its Second Regular Session of 2005, the Board requested the Secretariat to prepare a report analysing WFP's cost structure. In response, this report reviews WFP's various cost components and analyses recent trends for each, focusing on a comparison of actual expenditures for the 2002–2003 and 2004-2005 biennia. Planned expenditures for 2006-2007 are also presented.

Comparison of the 2002–2003 expenditure with the 2004–2005 biennium shows a total expenditure increase of 22 percent. The planned increase for the 2006–2007 biennium is 3 percent, excluding unforeseen emergencies.

For purpose of the review, costs were classified as non-food-project costs or food-project costs.

Section II shows that expenditures unrelated to food projects, that is for bilateral operations, the General Fund, special accounts, trust funds and special operations increased by 75 percent from 2002 to 2005, accounting for 40 percent of the total expenditure increase between the two biennia. The main reasons for these expenditure increases are as follows:

- Expenditures against special operations increased because of the greater number of common services provided through special operations, and implementation of large-scale special operations to support relief operations.
- There were increases in the number and size of special accounts, in line with the expansion of WFP's operations.
- There was an increase in trust funds resulting from a policy change whereby WFP started to incorporate into the income and expenditure statement certain funds received from recipient governments that had previously been reported in the balance sheet.
- There were increases in indirect expenditures as a result of the Board's approval of additional indirect resources to increase capacity to manage the organization's growing needs and cover the increased PSA costs arising from devaluation of the US dollar against the Euro.

Food-project expenditures increased by 16 percent during the same period; the average direct cost per metric ton increased by 13 percent. The analysis of food-project expenditure on a unit-cost basis in Section III reaches the following conclusions for each cost component:

- The main determinants of the increase in average commodity costs per metric ton are composition of food baskets and the delivery terms in food-procurement contracts.
- Increases in external transport costs can be attributed to an increase in freight prices, amplified by the use of "unpopular" shipping lanes, increased need for trans-shipment

of commodities and increased port costs.

- Increases in fuel prices, inflation and the weakening US dollar contributed to the increase in LTSH costs, which are affected by local transport conditions. The poor infrastructure and insecure conditions in Sudan and the increase in size of the Sudan emergency operation added US$380 million to LTSH costs in 2004–2005.
- The large percentage increase in other direct operational costs is linked to the increased number and size of protracted relief and recovery operations with significant rehabilitation components, and to the increased number of capacity-building activities under Strategic Priority 5.
- Non-staff direct support costs have been affected by local inflation, the weak US dollar and increased expenditure on security. The staff component of direct support costs increased as a result of improved contractual status of WFP staff and higher incentives for staff working in hardship and less secure duty stations. The increase in Sudan emergency operations contributed to 58 percent of the increase in direct support costs in 2004–2005, a result of the major investments needed in human resources, services and security measures.

DRAFT DECISION*

The Executive Board takes note of the document "Analysis of WFP Cost Components" (WFP/EB.A/2006/6-G/1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.

INTRODUCTION AND BACKGROUND

1. In the context of discussions on the Biennial Management Plan during the Board's Second Regular Session in 2005 and in response to questions from the Board, the Secretariat outlined the composition and movements of various WFP cost components.

2. To provide a more comprehensive picture of the organization's costs, the Board "… requested the Secretariat to prepare a report for the Annual Session of the Board in 2006, analysing WFP's cost structure, which would include: an analysis of [its] cost components, including DSC[1]…".

3. In response to that request, this paper illustrates WFP's cost structure by:

   - providing an overview of recent trends in WFP expenditures and a context for their analysis (Section 1: Cost overview);
   - separating out costs not related to food projects, including General Fund, Special Accounts, bilateral operations, trust fund and special operation costs (Section II: Costs not related to food projects); and
   - presenting costs related to food projects (Section III: Food project costs).

4. The time available for this review was limited because much of the analysis was dependent on the financial results for 2004–2005, which were not available until late March 2006.

5. The Biennial Management Plan is established using a needs-based methodology that includes only known or foreseeable requirements. While that is appropriate for planning purposes, the resulting plan that does not always reflect actual results and trends. The most obvious example of this is the number and size of emergency operations (EMOPs). Because the management plan does not include any provision for unforeseen emergencies, the plan generally reflects lower EMOP expenditure than actually occurs during a given period, and a higher proportion of programmes such as protracted relief and recovery operations (PRROs).

6. This paper compares the actual results for the 2002–2003 and 2004–2005 biennia. The 2006–2007 Management Plan figures are given for reference; any significant differences between these figures and the actual figures for 2004–2005 are explained.

SECTION I: COST OVERVIEW

7. WFP is funded entirely from voluntary contributions provided by its donors. To ensure equity among donors, it applies the policy of full cost recovery, which means that all donors "… shall provide cash contributions sufficient to cover the full operational and support costs of its contributions …".[2]

8. WFP's core work is project-driven. With the exception of requirements managed through trust funds and the General Fund, all needs are defined on a project-by-project basis. As a result, donors provide contributions primarily to projects. The resulting costs

[1] Direct support costs.

[2] General Regulations, Article XIII-2.

are a function of the unique project needs, the type of contribution and other factors, which are described in this paper.

9. Table 1 shows the actual audited expenditures for the organization for the last two biennia and the planned expenditures for the 2006–2007 biennium.

TABLE 1: EXPENDITURES BY COST COMPONENT

	2002–2003 Actual	2004–2005 Actual	% change 2002–2005	2006–2007 Planned	% change 2004–2007
Food	2 719.8	2 792.3	3	2 597.0	-7
External transport	438.2	622.5	42	703.0	13
LTSH[3]	946.9	1 277.7	35	1 377.0	8
ODOC[4]	234.6	427.4	82	515.3	21
DSC[5]	507.5	672.1	32	767.7	14
PSA[6]	232.2	385.1	66	393.0	2
Total	**5 079.2**	**6 177.1**	**22**	**6 353.0**	**3**

Note: This table format will be used throughout the document. It shows the actual expenditures for the two biennia 2002–2003 and 2004–2005, according to the audited financial statements, followed by a percentage comparison of these two periods in the column headed "Percentage change 2002–2005". The next column shows planned expenditures from the Biennial Management Plan 2006–2007, followed by a percentage comparison of these figures to the 2004–2005 actual results in the column headed "Percentage change 2004-2007".

10. WFP's actual total expenditure increased by 22 percent between 2002 and 2005. The planned expenditure for 2006–2007 is slightly higher than actual expenditure in 2004-2005, although the planned programme of work does not include unforeseen emergencies likely to arise in 2006–2007.

11. A note on inflation is included as Annex I. It concludes that price increases could have been expected to increase WFP's costs by 19 percent for emerging markets and developing countries and by 13 percent on average worldwide between 2002 and 2005.

12. In order to analyse cost trends over these periods, expenditures are broken down into two categories: expenditures related to food projects and expenditures not related to food expenditures.

13. Table 2 provides actual expenditures for the last two biennia and planned expenditures for the current biennium, by programme category.

[3] Landside transport, storage and handling.

[4] Other direct operational costs.

[5] Direct support costs.

[6] Programme Support and Administrative (budget).

TABLE 2: EXPENDITURES BY PROGRAMME CATEGORY

	2002–2003 Actual	2004–2005 Actual	% change 2002–2005	2006–2007 Planned	% change 2004–2007
Food-related projects					
EMOP	1 870.5	2 039.2	9	1 614.0	-21
PRRO	1 149.0	1 913.7	67	3 046.0	59
Development	423.1	515.3	22	712.0	38
Iraq*	1 069.8	762.0	-29	0.0	-
Subtotal: food projects	**4 512.4**	**5 230.2**	**16**	**5 372.0**	**3**
Not related to food projects					
Special operations (SOs)	118.9	257.4	116	358.0	39
Bilateral operations	119.1	30.8	-74	63.0	104
Trust funds	51.7	155.3	200	52.0	-67
Special Accounts	32.2	122.2	279	115.0	-6
Other General Fund	33.5	28.2	-16	0.0	-100
PSA	232.2	385.1	66	367.5	-5
Capital and capacity	0.0	49.0	–	25.5	-48
Subtotal: not related to food projects	**587.6**	**1 028.0**	**75**	**981.0**	**-5**
Eliminations**	20.8	81.1	289	0.0	-100
Total expenditure	**5 079.1**	**6 177.2**	**22**	**6 353.0**	**3**

* Iraq is identified separately here because in 2003 it was classified as an EMOP and in 2004 as a bilateral operation.

** Eliminations are made for internal activities that create inter-office balances in the financial statements; this more accurately reflects the consolidated position of the organization. The increase in eliminations is associated with an increase in Special Account activity.

14. Table 2 shows that of the US$1,098.1 million increase in total expenditure between 2002–2003 and 2004-2005, US$440.4 million was related to activities not directly related to food; US$717.8 million related directly to food projects; eliminations increased by US$60.3 million.

15. From 2002 to 2005, there was an increase of 75 percent in expenditures not related to food projects, accounting for 40 percent of the total increase in expenditures between the two biennia. During 2006–2007, these expenditures are expected to decrease slightly. Changes in expenditures not related to food projects are considered in detail in Section II.

16. From 2002 to 2005, there was a 16 percent increase in food-related project expenditures compared with a total expenditure increase of 22 percent during the same period. Expenditures for food-related projects vary directly with food volume and beneficiary caseload; therefore, unit costs can be analysed and compared across the biennia. Unit costs are considered in order to isolate the impact of cost changes in each cost component from the impact of general changes in the level of operating activity. Changes in expenditures for food-related projects are analysed in detail in Section III.

SECTION II: COSTS NOT RELATED TO FOOD PROJECTS

17. The expenditures for bilateral operations, General Fund, Special Accounts and trust funds do not relate to WFP's regular operational programme of work. Expenditures for SOs, while part of the operational programme of work, do not have a food component. These expenditures are distinguished here from the costs of food-related projects.

18. Table 3 shows the actual audited expenditures in these areas for the last two biennia and the planned expenditures for the 2006–2007 biennium.

TABLE 3: EXPENDITURES NOT RELATED TO FOOD PROJECTS

	2002–2003 Actual	2004–2005 Actual	% change 2002–2005	2006–2007 Planned	% change 2004–2007
SOs	118.9	257.4	116	358.0	39
Bilateral operations	119.1	30.8	-74	63.0	104
Trust funds	51.7	155.3	200	52.0	-67
Special Accounts	32.2	122.2	279	115.0	-6
Other General Fund	33.5	28.2	-16	0.0	-100
Subtotal: direct expenditures	**355.4**	**593.9**	**67**	**588.0**	**-1**
PSA	232.2	385.1	-	367.5	-
Capital and capacity*	0.0	49.0	-	25.5	-
Subtotal: indirect expenditures	**232.2**	**434.1**	**87**	**393.0**	**-10**
Total: Not related to food projects	**587.6**	**1 028.0**	**75**	**981.0**	**-5**

* Capital and capacity expenditure has been presented here in a manner consistent with the Management Plan, following a recommendation of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in 2003 that "…most of these would normally be regarded as PSA costs…".

19. Expenditures not related to food projects increased by 75 percent between 2002–2003 and 2004–2005. Direct expenditures increased by 67 percent, while indirect expenditures related to support costs increased by 87 percent. The details of the increases are shown below.

Direct Expenditure

20. Table 4 shows a breakdown by cost component of the increase in direct expenditures not related to food projects.

TABLE 4: BREAKDOWN BY COST COMPONENT OF DIRECT EXPENDITURES NOT RELATED TO FOOD PROJECTS

	2002–2003 Actual	2004–2005 Actual	% change 2002–2005	2006–2007 Planned	% change 2004–2007
ODOC	151.1	337.7	124	374.3	11
DSC	148.0	195.2	32	162.7	-17
Other*	56.4	61.0	8	51.0	-16
Total	**355.4**	**593.9**	**67**	**588.0**	**-1**

*Note: Includes bilateral operations, which can include food and transport components. Formally these are not projects and are therefore included here rather than in the food projects section, with the exception of the Iraq bilateral operation in 2003, as noted above.

21. Between 2002–2003 and 2004–2005, expenditures classified as direct but that are not related to food projects increased by over US$238 million. Of this, US$186.6 million was an increase in the ODOC component.

22. As indicated in Table 3, most of this increase results from:

- SOs;
- trust funds; and
- special accounts.

23. The following paragraphs describe the major activities in each category.

Special operations

24. SOs complement WFP relief operations, usually to address operational bottlenecks that hinder the flow of food to beneficiaries. SOs are used in WFP interventions to:

1. rehabilitate and enhance transport and logistics infrastructure to permit timely and efficient delivery of food assistance, especially to meet emergency and protracted relief needs (“WFP relief”); and
2. enhance coordination in the United Nations system and with other partners by providing designated common services including United Nations Humanitarian Air Services (UNHAS), United Nations Joint Logistics Centre (UNJLC) and Inter-Agency Security Telecoms (“Common services”).

25. Table 5 shows the percentage share of expenditures for the two kinds of SOs.

TABLE 5: EXPENDITURES BY SPECIAL OPERATION TYPE (%)			
	2002–2003	**2004–2005**	**2006–2007 (plan)**
WFP relief	66	55	64
Common services*	34	45	36
Total	**100**	**100**	**100**

* UNHAS, UNJLC and Inter-Agency Security Telecoms.

26. Increases in expenditures for common services contributed over half of the total increase in SO expenditures between 2002–2003 and 2004–2005. The operations that contributed most to the rest of the increase are Sudan – 56 percent of 2005 expenditures, the tsunami operation – 21 percent, Pakistan – 9 percent, Angola – 3.5 percent, Chad – 3 percent and DRC – 1.5 percent. WFP relief SOs were required to assist the delivery of food aid, while investments made through them also helped to strengthen government capacity by developing local infrastructure.

27. The total planned expenditures for 2006–2007 are US$258.6 million. Of this, 90 percent relates to 2006. The Sudan special operation accounts for 73 percent of the total.

28. Table 6 shows expenditures for 2002 to 2005.

TABLE 6: SO ACTUAL EXPENDITURES (US$ MILLION)			
2002	**2003**	**2004**	**2005**
35.9	83.0	60.6	196.7

29. Actual expenditures incurred in the single year 2005 amounted to 52 percent of overall expenditure for the entire four-year period.

Trust Funds

30. As can be seen from Table 3, there was also a significant increase in trust fund expenditures in 2004–2005 compared with 2002–2003. The main reason is to be found in a policy change whereby WFP now incorporates into the trust fund category funds received from recipient governments, which were previously reported on balance sheets. The largest of these trust funds are the ones established by the Government of Ecuador, which support various social feeding programmes provided through the Ministry of Public Health, the Ministry of Education, the Ministry of Social Welfare and the National Family Institute; a new Ecuador Contingency Fund was also set up. In Honduras, the Government has asked WFP to establish a trust fund for the transport of food for the school feeding programmes. Several private-sector contributions have also been channeled through trust funds, the largest of which was the TNT support trust fund.

Special Accounts

31. There has been an increase in the number and size of special accounts in order to sustain the expansion of WFP operations. In the 2002–2003 biennium there were seven[7] special accounts, with US$32.2 million in expenditures. In 2004–2005, the number of special accounts increased to 12, with US$122.2 million in expenditures.

32. The following Special Accounts have contributed most to this increase:

- Aviation Special Account. In 2003 WFP accepted the mandate to administer air transport services for humanitarian and other activities for United Nations agencies, funds and programmes and their non-governmental organization (NGO) implementing partners. The Aviation Special Account was established to manage the income and expenditure for aviation services and related activities.

  Through this Special Account WFP charges its clients a fee for air transport services, which covers all costs for maintaining a WFP aviation management infrastructure, its safety and management quality assurance programmes. All air transport services and professional services provided by WFP contribute to the Special Account to finance the services provided. The client list includes WFP country offices, United Nations agencies, funds and programmes and their non-governmental organization (NGO) implementing partners involved in humanitarian, rehabilitation and other activities that are not directly or specifically peacekeeping activities.

  The account was established in December 2003 and had no expenditures during the 2002–2003 biennium; during 2004–2005, there were expenditures of US$58.3 million. This one account accounts for 65 percent of the increase in Special Accounts expenditures between the two biennia.

- TC/IT Standby Equipment and Services. This account was established in 2000 for financing rapid deployment of equipment and support services in emergency situations and enhancing information and communication technology services worldwide.

  Expenditures from the account more than doubled between 2002–2003 and 2004–2005 from US$4.6 million to US$9.3 million, accounting for 20 percent of the total increase in Special Accounts expenditures. Various large projects undertaken during the biennium, and a marked increase in procurement activities, account for the increase. The projects undertaken include a World Bank-funded project in DRC, inter-agency projects in Sudan, Iraq and Pakistan and a large WFP project in Chad.

- Self-insurance Special Account. WFP has had a self-insurance scheme since 1 May 1994 that covers pre-delivery and transit commodity losses involving international cargo. Each shipment is reinsured with an external company against losses exceeding US$750,000 per consignment, or US$1.5 million per vessel. The self-insurance account is credited with premiums charged to projects on a basis equivalent to commercial rates. The account pays for financial compensation on transit losses on commodities and credits the donors concerned, who may allow the compensation to flow back to projects as additional contributions or may use it to replenish the Immediate Response Account (IRA). Recoveries from responsible third parties are likewise credited to the account. The increase of expenditures on the account was associated with the general increase in the operational level.

[7] Not including the Flight 2145 Kosovo Disaster Special Account, which was established temporarily to record expenditures relating to the loss of a WFP chartered aircraft in Kosovo.

- The United Nations Humanitarian Resource Depot (UNHRD) Special Account. This account was set up to account for transactions affecting the operations of a depot established on 1 June 2000 in Brindisi, Italy and managed by WFP. The depot is operated for a consortium of United Nations humanitarian agencies and NGOs that provide services to other parties under separate contractual agreements. UNHRD expenditures increased to US$8.2 million in 2004–2005.

33. The total expenditure for these four Special Accounts in 2004–2005 was US$110 million. The equivalent figure for 2002–2003 was US$27 million. Most of the increase was in ODOC – from US$6.2 million to US$68.9 million – mainly because of the large ODOC expenditure for the newly-established Aviation Special Account. The direct support costs in this category also doubled due to increased expenditures from the TC/IT Special Account.

Indirect Expenditures

34. A detailed analysis of the trend in indirect costs and the related indirect support costs (ISC) income is presented to the Board in the document "Review of the ISC Rate" (WFP/EB.A/2006/6-C/1).

35. In the Biennial Management Plan 2004–2005, the Secretariat noted that the 2002–2003 Programme Support and Administrative (PSA) levels did not provide the infrastructure necessary to manage and support the growing needs of the organization.

36. As a result, the Board approved additional indirect resources to build and increase capacity in core areas and mainstream core functions funded by extra-budgetary resources. The capacity-building aspect of the 2004–2005 indirect expenditure budget, as contained in the Biennial Management Plan 2004–2005, was US$103 million, broken down as follows:

- US$54 million of PSA for:
  - ◊ increased and enhanced technical support US$17 million;
  - ◊ improved staff security US$1 million;
  - ◊ administrative strengthening US$22 million
  - ◊ partnerships, communication and broadening of the donor base US$14 million
- US$49 million of capital and capacity funds for:
  - ◊ capital asset fund US$19.2 million
  - ◊ financial management strengthening US$5.7 million
  - ◊ results-based management US$4.1 million
  - ◊ security upgrade fund US$20.0 million

37. The Management Plans for 2004–2005 and 2006–2007 also pointed to the significant devaluation of the United States dollar against the Euro as a major factor impacting PSA costs, because Headquarters is in the Euro zone. This contributed US$58.6 million to the increase in PSA expenditures for 2004–2005, as shown in the Biennial Financial Statements 2004–2005.

SECTION III: FOOD PROJECT COSTS

38. Isolating expenditures that relate directly to food projects makes it possible to examine the direct relationship between them and operational volume measured either in metric tons or beneficiary numbers.

Cost Component Overview

39. Table 2 showed the total expenditures related to food projects. Table 7 classifies those amounts by cost component and shows the related beneficiary numbers and distribution tonnages.

TABLE 7: EXPENDITURES RELATED TO FOOD PROJECTS, BY COST COMPONENT

	2002–2003 Actual	2004–2005 Actual	% change 2002–2005	2006–2007 Planned	% change 2004–2007
Food	2 673.0	2 741.1	3	2 557.0	-7
External transport	433.0	619.3	43	698.0	13
LTSH	947.7	1 306.5	38	1 371.0	5
ODOC	93.9	109.1	16	141.0	29
DSC	364.9	454.2	24	605.0	33
Total	**4 512.4**	**5 230.2**	**16**	**5 372.0**	**3**
Beneficiaries (millions)	176.2	209.7	19	75 p.a.	N/A
Distribution, by mt (millions)	9.335	9.574	3	9.267	-3

40. There was a 16 percent increase in expenditure between 2002–2003 and 2004–2005. Annex 1 indicates that worldwide inflation averaged 13 percent over these four years.

41. There is also a small increase in distribution volume in tonnage terms over the period. However, as outlined in Annex II the use of beneficiary numbers to compare planned expenditures with actual expenditures does not result in comparable unit costs. Historic reporting includes all beneficiaries regardless of ration received or period covered, while planned beneficiary numbers are, almost by definition, at full ration for the full planned period.

42. A more reliable method of comparing unit costs is to use metric tonnage. Table 8 shows average direct expenditures per metric ton, by programme category and showing Iraq separately.

TABLE 8: AVERAGE DIRECT COST/mt					
	2002–2003 Actual	**2004–2005 Actual**	**% change 2002–2005**	**2006–2007 Planned**	**% change 2004–2007**
EMOP	451.8	581.2	29	652.6	12
PRRO	520.4	580.0	11	574.3	-1
Development	362.7	444.6	23	477.9	8
Iraq	587.5	474.1	-19	0.0	-
Average direct cost/mt	**483.3**	**546.3**	**13**	**579.7**	**6**

43. Table 8 shows that average direct expenditures per mt vary considerably over time and between programme categories. It depends more on the nature of the operations being implemented during a period than on generic programme category considerations.

44. The Iraq programme has a distorting effect on the overall analysis. The average cost per mt for this programme decreased by 20 percent from 2003 to 2004; in 2003 it was significantly above the average cost per mt, while in 2004 it was significantly below. For this reason, and because of the unique nature of the operation, the Iraq programme will be excluded from the remaining analysis.

45. Table 9 shows all food project expenditures excluding Iraq for the period 2002 to 2007, with the associated distribution tonnages.

TABLE 9: FOOD PROJECT EXPENDITURE BY COST COMPONENT (EXCLUDING IRAQ PROGRAMME)					
	2002–2003 Actual	**2004–2005 Actual**	**% change 2002–2005**	**2006–2007 Planned**	**% change 2004–2007**
Food	1 767.0	2 147.7	22	2 557.0	19
External transport	395.8	524.5	32	698.0	33
LTSH	867.8	1 240.2	43	1 371.0	11
ODOC	75.4	109.1	45	141.0	29
DSC	336.6	446.8	33	605.0	35
Total	**3 442.6**	**4 468.3**	**30**	**5 372.0**	**20**
Actual mt (million)	7.515	7.967	6	9.267	16

46. By excluding expenditures not related to food projects, and those from the Iraq programme, it is now possible to examine relatively comparable unit costs. Table 10 shows average direct expenditure per mt for the period covered, excluding Iraq.

TABLE 10: AVERAGE DIRECT EXPENDITURE PER mt (EXCLUDING THE IRAQ PROGRAMME)					
	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Food	235.1	269.6	15	275.9	2
External transport	52.7	65.8	25	75.3	14
LTSH	115.5	155.7	35	147.9	-5
ODOC	10.0	13.7	37	15.2	11
DSC	44.8	56.1	25	65.3	16
Total	**458.1**	**560.8**	**22**	**579.7**	**3**

47. The following paragraphs describe the main factors that have contributed to changes in these expenditures, separated into the following cost components:

- food;
- external transport;
- landside transport, storage and handling (LTSH);
- other direct operational costs (ODOC); and
- direct support costs (DSC)

FOOD

Food costs

48. The food cost component is composed of food purchased, food donated in kind and other relatively minor costs such as quality and quantity survey fees.

TABLE 11: FOOD COSTS (EXCLUDING THE IRAQ PROGRAMME)					
	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Expenditures (million US$)	1 767.0	2 147.7	22	2 557.0	19
Average unit costs (US$/mt)	235.1	269.6	15	275.9	2

49. Excluding the Iraq programme, expenditure on food increased by almost 22 percent between 2002–2003 and 2004–2005. Given a 6 percent increase in tonnage distributed, the average unit cost increase was 15 percent. To ensure consistency throughout the document, unit cost is based on distributed tonnage rather than purchased or donated tonnage.

50. Where the probable source of commodities is not known, prices are especially difficult to predict. The planning figures for 2006–2007 are based on average costs per mt in 2004 and do not reflect any major change from 2004–2005.

51. Two factors are particulary important in WFP food costs:

- the commodity mix, or type of food required; and
- the source of the commodities.

Commodity Mix

52. The main determinant of WFP's average commodity cost per mt is the composition of the food basket, which determines the commodities required.

53. Table 12 shows the composition of the food basket for the two biennia 2002–2003 and 2004–2005, by main commodity group.

TABLE 12: COMPOSITION OF FOOD BASKET, 2002–2005

	2002–2003		2004–2005
	Price per mt	% of basket	% of basket
Cereals	162.3	80.9	77.5
Blended	293.5	6.4	7.8
Oil	758.6	3.8	4.3
Pulses	747.3	1.4	2.1
Other	330.8	7.5	8.3
	224.3	100.0	100.0

Note: These figures are based on purchased and donated commodities. The costs per mt are different from those in Table 10, which uses distributed tonnages.

54. The proportion of cereals in the overall food basket decreased by 3.4 percent; there were corresponding increases in blended food: 1.4 percent, oil: 0.5 percent, pulses: 0.7 percent and other: 0.8 percent, all of which were more expensive commodities.

55. This change is more significant than it first appears. Even if commodity prices had remained constant, a shift of 0.5 percent in the composition of the food basket from cereals to oil would have added to the overall unit cost as follows:

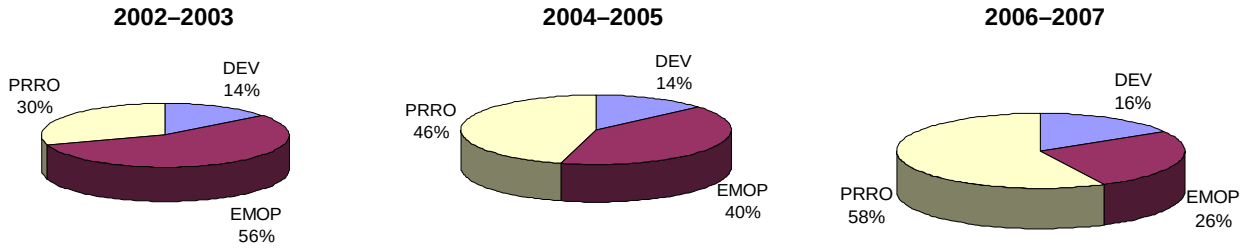
- shift from cereals to oil: 0.5 percent
- 0.5 percent of 8 million mt purchased/donated: 40,000 mt
- additional cost per mt: US$596.3
- total increase in costs: US$23.9 million
- overall average direct cost per mt increase: US$2.98

56. The shift of 0.5 percent from cereal to oil added almost US$3 dollars to the overall average direct cost per mt.

57. Similar analysis of all changes in the composition of the food basket during the period demonstrates that the small change in the mix of commodities between 2002–2003 and 2004–2005 increased the overall average direct cost per mt by US$10.20, one third of the average unit cost of food increase.

58. The shift in the composition of the food basket is associated with a movement from EMOPs to PRROs. Figure 1 highlights the growth in commodity needs for PRROs versus the other two programme categories.

Figure 1: Trend in Food Needs, by Programme Category (Based on mt)

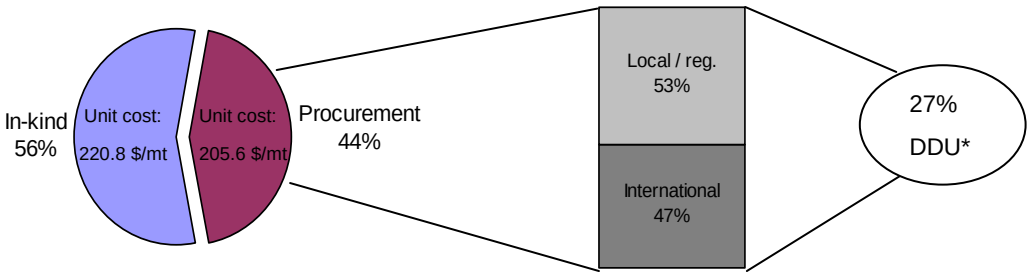


59. On average, the food needs of PRROs were between 6 percent and 14 percent more expensive than EMOPs.

Sources of Commodities and Purchase Terms

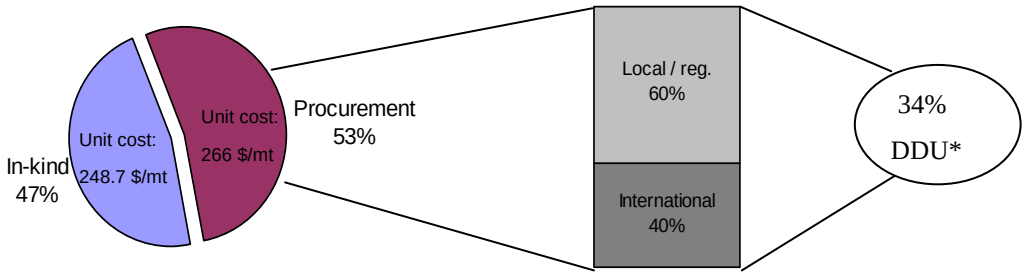
60. Other major factors influencing commodity costs are the origin of commodities and the delivery terms included in food-procurement contracts. Figures 2 and 3 illustrate the shift in WFP's sources of commodities.

Figure 2: Trend in Food Costs, 2002–2003



*delivered duty unpaid

Figure 3: Trends in Food Costs, 2004–2005



*delivered duty unpaid

61. The volume of in-kind commodities received decreased from 56 percent of the total in 2002–2003 to 47 percent in 2004–2005. However, the unit cost per mt for both in-kind and purchased commodities increased in 2004–2005. The unit cost of in-kind commodities was higher than for purchased commodities in 2002–2003, but lower in 2004–2005. These differences result mainly from the type of commodities received, which is related to the composition of the food basket, rather than to the type of donation.

62. A more straightforward determinant of the cost per mt is the procurement delivery terms for purchased commodities. For example, from the above graphs, DDU delivery terms increased from 27 percent to 34 percent over the two biennia. These delivery terms mean the commodity price includes an element of transport costs. A comparison was made between purchases made under DDU terms in 2002–2003 and 2004–2005, which indicates that on average the increased use of DDU terms added US$39.5 million to the overall food costs. This is equal to US$5.25 per mt, or 15 percent of the unit cost increase. Therefore, a relationship exists between the food cost component and the transport cost components for external transport and LTSH, depending on whether the purchases are regional or local. DDU terms increase food costs per mt, but they create a corresponding reduction in transport costs. It should be noted that current WFP practices do not allow for the separation of commodity price and transportantion costs when purchasing under these terms.

Conclusion

63. Food costs per mt increased by US$34.5 per mt – 15 percent – between 2002–2003 and 2004–2005. Of this increase approximately US$10.20 per mt was the result of a shift in commodity requirements from cereals to other food types. An additional US$5.25 was attributable to increased use of DDU terms.

64. These calculations do not include (i) movements within food category types, for example from a less expensive cereal to a more expensive one, (ii) changes in other delivery terms – DDU terms were examined because they were the most easily quantified – and (iii) inflation rates, as shown in Annex I.

EXTERNAL TRANSPORT

65. External transport costs are usually the costs associated with the first leg of transport of donated or purchased commodities from the country in which WFP receives the consignment and the recipient country.

66. Table 13 shows the actual external transport expenditures and average costs per mt in 2002–2003 and 2004–2005 and those planned for 2006–2007.

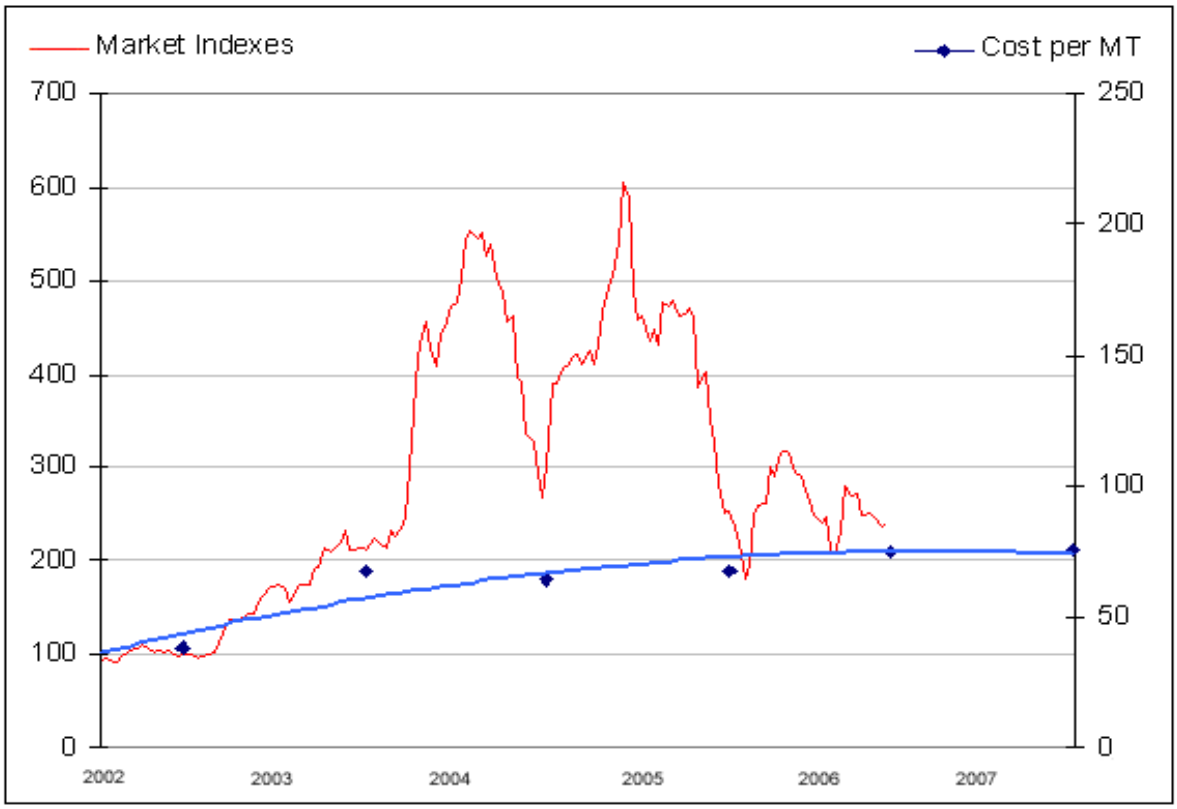
TABLE 13: EXTERNAL TRANSPORT COSTS

	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Expenditures (million US$)	395.8	524.5	33	698.0	33
Average unit cost (US$/mt)	52.7	65.8	25	75.3	14

67. Many factors determine the average cost per mt for external transport, for example delivery terms, types of commodities, packaging and the shipping route. While WFP operates on trade lanes outside the market norm, its direct cost per mt for external transport may be compared to the ocean freight market generally.

68. Figure 4 compares market trends in ocean freight prices to WFP's average external transport unit costs, using 2002 as the base period.

Figure 4: Ocean Freight Market Trends Compared to WFP Costs



69. The market price for ocean freight increased dramatically in 2004 and 2005. This increase was attributed to:

(i) lack of elasticity in supply in the maritime transport market, combined with high demand from late 2002 to 2005;
(ii) the positioning of vessels away from regular trade lanes because of increased transport demand in Asia, particularly China;
(iii) an increase in ship-breaking from 2000 to 2002 and greater lead time for building new ships, which further reduced supply and meant that older vessels had to be used, leading to higher costs;
(iv) increases in core costs such as shipbuilding, insurance, security and fuel; and
(v) expectations generated by the price increase trend.

70. The increase in market prices significantly exceeded the increase in external transport costs for WFP during the period from 2002 to 2005.

71. Factors specific to WFP played a role in its external transport costs. These included:

- increased port costs, including port handling and improvements to port infrastructure;
- increased need for trans-shipment of WFP commodities: where destination ports do not meet international minimal security standards, shipowners are reluctant to berth their vessels;
- use of relatively unpopular shipping lanes, which are often more expensive than the market norm; and
- different delivery terms for many commodity purchases (as described above), which reduced the external transport costs of those consignments.

72. Operational figures for the Management Plan were compiled between March and May 2005, during a period when the shipping market was toward its peak.

Conclusion

73. WFP's external transport cost per mt increased by 25 percent from 2002–2003 to 2004-2005. Although many factors contributing to this were unique to WFP, the biggest factor was the large increase in ocean freight market prices.

LANDSIDE TRANSPORT, STORAGE AND HANDLING (LTSH)

74. LTSH comprises the costs required to care for and physically deliver commodities from the completion of external transport through to final distribution.

TABLE 14: LTSH COSTS

	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Expenditures (million US$)	867.8	1 240.2	43	1 371.0	11
Average unit cost (US$ per mt)	115.5	155.7	35	147.9	-5

75. Table 14 shows a significant increase of 35 percent in the average mt unit cost of LTSH between 2002–2003 and 2004–2005. Macroeconomic factors and country-specific factors contributed to this increase.

Macroeconomic Factors

76. Three macroeconomic factors have had an impact on LTSH costs over the period:

(i) the increase in fuel prices;

(ii) the weakening of the US dollar; and

(iii) inflation.

Increase in Fuel Prices

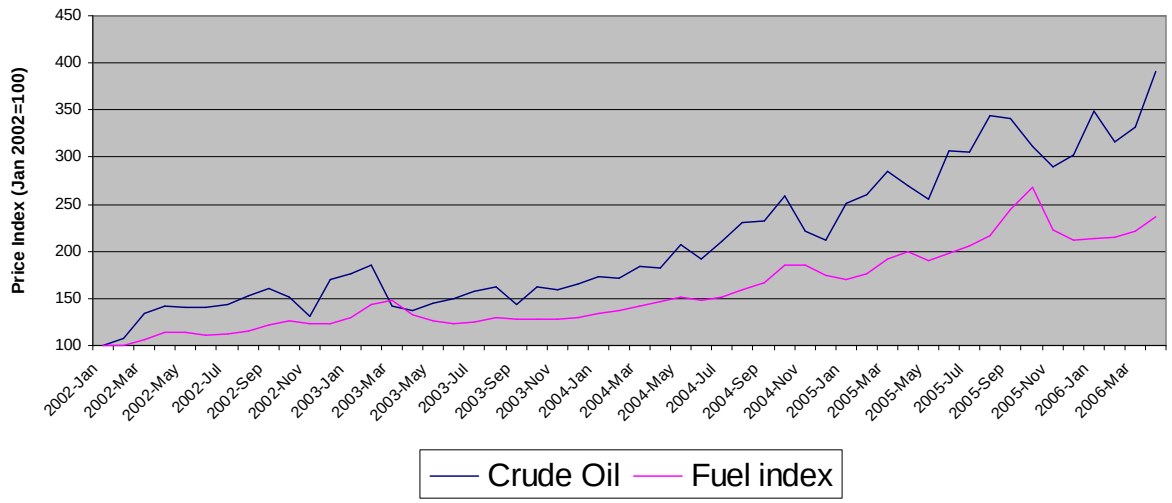
77. Fuel prices are a significant input into the LTSH average cost per mt, but the extent to which fuel is an input varies from project to project and over time, based on factors such as:

- the type of transport being used;
- the quality of transport infrastructure;
- the security environment;
- the overall proportion of costs that relates to transport versus storage and distribution; and
- in-country transport market conditions.

78. It is difficult to determine the exact proportion of LTSH costs that are affected by fuel price changes, because most fuel costs are passed on to WFP through external transport suppliers. Fuel can constitute up to 70 percent of transport charges; the percentage of fuel costs in commercial trucking rates averages 42 percent. As a way of illustrating the potential impact of fuel prices on LTSH, here it is assumed that approximately 25 percent of LTSH costs are directly determined by fuel prices.

79. Figure 5 illustrates changes in crude oil prices and retail diesel prices over the past four years.

Figure 5: Crude Oil and Fuel Price Changes 2002-2006



80. As the figure illustrates, the increases over the period are significant: crude oil prices increased by 68 percent from 2002–2003 to 2004–2005. Diesel fuel prices also increased, by 49 percent, during the same period. The relationship between crude oil prices and fuel prices is not always direct because fuel prices are also strongly influenced by demand and other variables.

81. Given a cost of US$115.50 per mt for LTSH in 2002–2003, assuming that 25 percent of LTSH is determined by fuel prices and that fuel costs increase by 50 percent between 2002 and 2005, LTSH costs would be expected to increase by over US$14 per mt during that period, due solely to the increase in fuel prices. That is, over one third of the increase in LTSH costs per mt could be attributable to the increase in fuel prices.

Weakening of the US Dollar

82. The weakening of the US dollar may have had a significant impact on LTSH costs because most LTSH costs are incurred in-country, with a significant proportion denominated in local currencies. The exact impact of this is difficult to determine because the proportion of LTSH expenditures paid in currencies other than US dollars varies from project to project and over time.

83. In a sample analysis of 151 active or recently-closed projects, 36 percent of actual LTSH expenditure had been denominated in currencies other than US dollars. On the basis of US$115.50 per mt for LTSH in 2002–2003 and an assumption of a 12.4 percent decline in the purchasing power of the dollar, LTSH costs would be expected to increase by US$4.50 per mt between 2002–2003 and 2004–2005 solely as a result of foreign exchange movements.

84. However, this decline in the US dollar is relative to the United States trading partners' basket of currencies. Given that WFP works in different countries it is likely that the foreign exchange impact for WFP is probably significantly different.

Inflation

85. Annex I shows that between 2002 and 2005 inflation averaged 19.3 percent in emerging market economies. Again it is difficult to correlate this directly to WFP's LTSH, especially when exchange rate movements are considered, but general inflation in recipient countries will have played a role in LTSH cost increases.

Country-Specific Factors

86. WFP's LTSH costs are tied to the operational requirements and unique situation of each project and are difficult to compare to general market trends. Country-specific factors include:

- the conditions of the local transport sector;
- the organization of the port and its operations;
- competition in the commercial sector;
- fuel and running costs;
- axle load limitations;
- the extent to which WFP contracts transport services or operates its own equipment;
- in-country warehouse compounds and logistic hubs; and

- general economic trends in-country.

Sudan

87. WFP operates in many areas with poor transport infrastructure and insecure conditions in remote locations. Sudan is the country where such severe conditions have had the biggest impact on LTSH costs. Sudan's emergency operations contributed significantly to the increase in LTSH costs for 2004–2005.

88. Table 15 shows how Sudan's LTSH rate compares with the WFP average for food projects and makes plain the large increase in the relative size of the Sudan EMOPs.

TABLE 15: WFP AVERAGE AND SUDAN EMOP LTSH RATES, BY BIENNIUM

	2002–2003	2004–2005	2006–2007
WFP average LTSH per mt (see Table 9)	115.5	155.7	147.9
Sudan's major EMOPs LTSH rate per mt [(1)]	360.0	561.0	467.0
Sudan as a percentage of total distributed tonnage (excluding the Iraq programme)	4	11	11

[(1)] Cost per mt for 2002–2003 and 2004–2005 is calculated based on actual expenditure and distributed tonnage.

89. Table 15 shows that there was an increase in LTSH per mt in Sudan between 2002–2003 and 2004–2005; the LTSH cost per mt remained at over three times the WFP average in 2004–2005. The substantial increase in size of the Sudan EMOP lead to a significant increase in WFP's overall LTSH costs.

90. The increase in size of the Sudan operation from 270,600 mt in 2002–2003 to 850,500 mt in 2004–2005 added US$380 million to total WFP LTSH costs.

91. The humanitarian operation in Darfur demanded more costly means of assistance because of the precarious security situation and the vast size and complexity of the operation. The higher LTSH cost in Sudan results mainly from limited surface infrastructure compounded by insecurity and limited trucking capacity available through the local market. WFP is frequently forced to use aircraft because of a precarious pipeline and difficult access to many areas during the rainy season.

Conclusion

92. To examine the exact impact of each of these factors would require a more in-depth study. However, the above analysis indicates that a significant portion of the increase in LTSH unit costs is attributable to increased fuel prices. Deteriorating transport infrastructures and security conditions are also significant factors. The increase in the LTSH rate per mt in the Sudan and the increase in the size of the operation added US$380 million to overall WFP LTSH expenditures in 2004–2005.

OTHER DIRECT OPERATIONAL COSTS

93. ODOC are defined as activity inputs – staff, non-food items or services – that are provided by WFP and used directly in activities by beneficiaries, the government of a recipient country or other implementing partners.

94. Table 16 shows WFP ODOC in terms of total, per mt and as a percentage of direct cost per mt.

TABLE 16: ODOC COSTS

	2002–2003 Actual	2004–2005 Actual	2002– 2005 % change	2006–2007 Planned	2004–2007 % change
Expenditures (million US$)	75.4	109.1	45	141.0	29
Average unit cost (US$/mt)	10.0	13.7	37	15.2	11
As a percentage of direct cost per mt	2.2	2.4		2.6	

95. Total ODOC expenditure increased by 45 percent from 2002 to 2005, while the cost per mt increased by 37 percent.

96. The increases in ODOC per mt should be considered in the light of the relatively low starting point compared to other cost components and the fact that ODOC was only introduced in 2000. ODOC accounts for between only 2 and 3 percent of total expenditure throughout the period 2002 to 2007.

97. Table 17 shows ODOC by programme category. ODOC for development and PRRO projects is expected to more than double between 2002 and 2007.

TABLE 17: ODOC PER mt, BY PROGRAMME CATEGORY (US$)

	DEV	EMOP	PRRO
2002–2003	13.34	11.26	5.97
2004–2005	11.26	16.56	11.50
2006–2007	20.13	8.09	17.16

98. The increase in ODOC results mainly from the increased number and size of PRROs with significant rehabilitation components, as well as WFP's increased capacity-building activities in line with Strategic Priority 5.

99. These activities have strengthened partnerships and helped build the capacity of implementing partners and counterparts, mainly in the areas of targeting, food security, vulnerability analysis and mapping; they have also contributed to higher ODOC.

100. The ODOC per mt related to staff increased by 18 percent from 2002 to 2005; to recurring costs by 89 percent; and to equipment and capital costs by 98 percent. The three biggest increases under equipment and capital costs were:

- health-related material and equipment;
- school-related material and equipment; and
- agricultural tools and equipment.

101. Because most ODOC are incurred in-country, the issues of a weaker US dollar and local inflation have also played a role in the increase in ODOC expenditures. As with LTSH, the exact impact of these factors is difficult to quantify.

Conclusion

102. Although ODOC for food projects represents less than 3 percent of overall expenditures, the ODOC per mt increased by 37 percent from 2002–2003 to 2004–2005. This increase is directly linked to the increased emphasis on strengthened partnerships (Management Objective 1) more accurate targeting (Management Objective 3), and Strategic Priority 5.

DIRECT SUPPORT COSTS

103. DSC are costs incurred directly to support projects. They include costs of international staff, national staff, recurring expenditures, equipment and capital costs.

TABLE 18: DSC COSTS

	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Expenditures (US$ million)	336.6	446.8	33	605.0	35
Average unit cost (US$/mt)	44.8	56.1	25	65.3	16
As a percentage of direct cost per mt	9.7	10.0		11.2	

104. DSC increased by US$110.2 million, or 33 percent, from 2002–2003 to 2004–2005. Average cost per mt increased by 25 percent.

105. Expressed as a percentage of direct costs per mt, DSC increased from 9.7 percent in 2002–2003 to 10.0 percent in 2004–2005. DSC were expected to represent 11.2 percent of direct costs per mt in the 2006–2007 Management Plan.

106. Table 19 shows the DSC by non-staff and staff components.

TABLE 19: DSC, BY COMPONENTS

	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Non-staff	132.3	199.4	51	270.8	36
Staff	204.3	247.4	21	334.2	35
Total	**336.6**	**446.8**	**33**	**605.0**	**35**

107. Non-staff DSC increased by 51 percent between 2002–2003 and 2004–2005. The major increases were for consultants, travel, information system expenditures, vehicle purchases and in-kind DSC contributions. Non-staff DSC are incurred primarily in-country and denominated in currencies other than US dollars. They are therefore subject to local inflation rates, which resulted in average price increases of 19 percent in developing market economies between 2002 and 2005, and the devaluation of the US dollar. As with LTSH and ODOC, the exact impact of these factors on DSC is difficult to quantify.

108. Non-staff DSC also rose because of the need for increased security. Examples include:

- costs to meet minimal operating security standards (MOSS); and
- costs for the Office of the United Nations Security Coordinator (UNSECOORD/DSS: US$22.6 million has been budgeted under the DSC component for the 2006–2007 biennium.

109. Staff DSC increased by 21 percent. The increase includes international and local staff. International staff are subject to standard staff rates; national staff salaries are charged on the basis of actual costs incurred and are determined by local factors. Staff costs have increased because:

- WFP is focusing on improving the contractual status of its staff members, in line with Management Objective 2 – becoming the employer of choice to competent staff committed to ending hunger. This involves conversion to fixed-term contracts from consultant contracts for international staff; for local staff it requires conversion of contracts from temporary to fixed-term. In many cases, the conversion can double the costs.
- An increased amount of incentive expenditure, including such items as rest and recuperation (R&R), hazard pay, and Extended Mission Evacuation Allowance (EMEA), is required because of the increasingly difficult locations and conditions under which staff are expected to work.

110. DSC are also strongly influenced by local factors. As with LTSH, the Sudan EMOPs played a large role in the increase in DSC for 2004–2005.

111. Table 20 compares the Sudan EMOP's DSC rate with the WFP average DSC rate for food projects, and shows the large increase in the size of the Sudan operation.

TABLE 20: DSC RATE FOR SUDAN EMOPS AND WFP AVERAGE

	2002–2003	2004–2005	2006–2007
WFP average DSC per mt [see Table 9]	44.8	56.1	65.3
Major Sudan EMOPs (DSC per mt) (1)	120.0	112.7	140.0
Sudan as a percentage of total distributed tonnage (excl Iraq)	4	11	11

(1) Cost per mt for 2002–2003 and 2004–2005 is calculated on actual expenditure and distributed tonnage.

112. There was a reduction in DSC per mt in Sudan between 2002–2003 and 2004–2005, but the rate per mt remained at over twice the WFP average in 2004–2005. The substantial increase in size of the Sudan EMOP from 270,600 mt in 2002–2003 to 850,500 mt in 2004–2005 added US$63.4 million to total DSC, 58 percent of the total WFP DSC increase.

113. Sudan's DSC have been kept low in view of the fact that Darfur is a major complex emergency operation in a country with poor infrastructure and severe insecurity. In order for WFP to implement such a vast and difficult operation, it was obliged to open new sub-offices, which required significant investments in human resources, services and security measures. Vehicles needed to be equipped with ballistic blankets and shatterproof glass and communication equipment needed to be upgraded to adhere to minimum security

telecommunications standards (MOSS/MIST) compliance and the need to position additional security officers in the field.

114. WFP increased its presence in southern Sudan, which required the opening of new sub-offices or strengthening existing sub-offices. WFP Sudan established three major operational hubs and 13 field offices throughout the Darfur region. Staffing levels were increased to ensure adequate monitoring and implementation of activities.

115. The actual DSC rate per mt of US$126.58 of the tsunami operation exceeded the WFP average for food projects by over US$70 per mt. This contributed an extra US$13.5 million to total DSC, or another 12 percent of the total WFP food project cost increase. The major reason for such a high DSC rate was that, although WFP was present in many tsunami-affected countries, it did not work in many of the areas affected, and was required to open new sub-offices to run the operation. In countries where WFP had no previous presence, such as Maldives, large capital investments were required to launch operations.

DSC in the 2006–2007 Management Plan

116. The methodology for creating the 2006–2007 operational budget was needs-based. All country offices were invited to compile their DSC staffing needs independent of funding constraints. This resulted in an increase in the number of international staff budgeted under DSC for the 2006–2007 biennium. It also resulted in provision for the conversion of many staff from consultants to fixed-term contracts, at both international and national levels, with the large increase in costs this entails, as well as a significant increase in the number of DSC-funded international staff. The actual DSC international staff count on 31 December 2005 was 515; the average planned level for 2006–2007 is 1,368.

117. As projects are approved and funding is made available, staffing levels come under increased scrutiny and are usually scaled back to ensure they are acceptable from a management and donor perspective. This leads to a significant difference between the planned DSC staffing levels and the actual DSC staffing numbers.

118. There were 555 DSC-funded international staff on the May 2006 payroll. As a result the actual DSC per mt for 2006–2007 are unlikely to exceed 2004–2005 by the 16 percent indicated in Table 18.

Conclusion

119. DSC expenditures increased by 25 percent per mt between 2002–2003 and 2004–2005. The size of the Sudan operation increased significantly during the period which, combined with the DSC-intensive nature of the tsunami EMOP, contributed to 70 percent of the overall increase in DSC related to food projects.

ANNEX I

Global Inflation

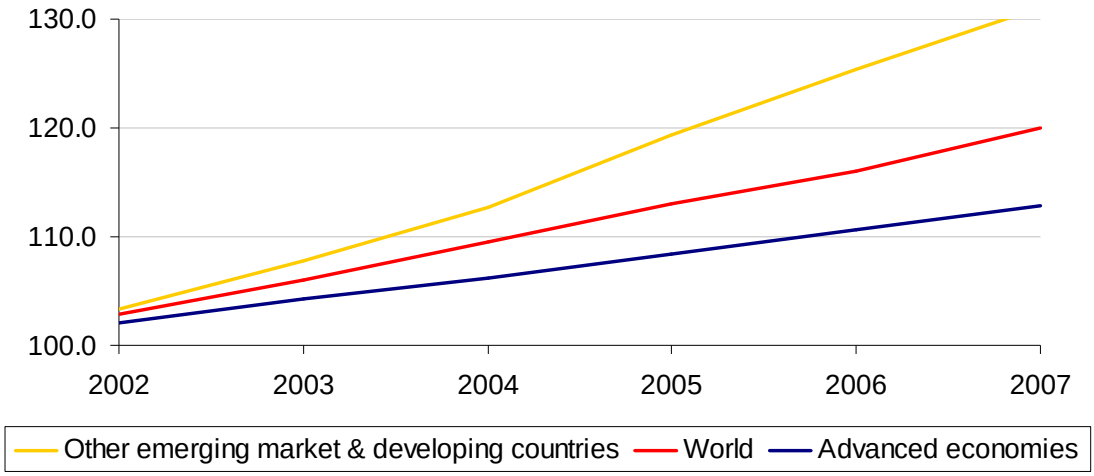
Average inflation has been relatively low since the early 1990s, especially in advanced economies.

Table I(a) shows the actual and projected price increases for advanced economies, other emerging market economies and developing countries, and the world as a whole for the period 2002 to 2007, using January 2002 as the base. Figure I(a) presents the same information as a graph.

TABLE I (A): INFLATION RATES, 2002 TO 2007

	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007
Advanced economies	102.1	104.2	106.2	108.5	110.6	112.8
World	102.9	106.0	109.6	113.0	116.0	120.0
Emerging market economies and developing countries	103.4	107.7	112.7	119.3	125.4	131.1

Figure I (a) Global Inflation Rates 2002-2007



Source: International Monetary Fund (IMF) World Economy Outlook 2006.

Inflation rates have remained at an average of 2–3 percent per year in advanced economies and 5 percent per year in emerging market economies, leading to a worldwide inflation rate of 3 percent per year over the period.

As a result, from 2002 to 2005 prices increased on average as follows:

- in advanced economies by 8.5 percent;
- in other emerging market economies and developing countries by 19.3 percent; and
- worldwide by 13 percent.

Inflation in advanced and many emerging market economies has remained relatively low in recent years, but fluctuating inflation rates in some emerging market economies and in developing countries has a direct effect on WFP costs.

Most LTSH and ODOC expenditures, and a significant part of DSC, are incurred in the country or region where WFP operates. Depending on the operations and purchasing terms, commodity and external transport costs are partly incurred in advanced economies and partly in developing countries.

ANNEX II

Determining Unit Costs

Beneficiaries

When planning operational requirements, WFP defines a beneficiary as a person who receives a full ration over a period of time through a particular activity.

During implementation, however, a beneficiary may receive a reduced ration or may be fed for a shorter period of time because of an unstable pipeline. In such cases, WFP needs to redirect available resources towards more vulnerable people in need of urgent food aid assistance. This situation can arise because insufficient resources are available to meet the full planned needs, because of insecurity or a significant increase in requirements. WFP usually feeds more beneficiaries than planned with the same amount of food, because a reduced ration per beneficiary means that more people can be included.

Table II (a) provides the details of actual beneficiaries fed in 2002–2005 versus planned beneficiaries for 2006–2007.

TABLE II (A): BENEFICIARIES AND FOOD DISTRIBUTION: 2002–2007

	2002–2003 Actual	2004–2005 Actual	2006–2007 Planned
Beneficiaries (millions)			
DEV*	30.2	47.6	40.1
EMOP	78.6	73.0	29.4
PRRO	40.8	63.1	80.5
Subtotal excluding Iraq	**149.6**	**183.7**	**150.0**
Iraq	26.6	26.0	n/a
Total	**176.2**	**209.7**	**150.0**
Food distribution (millions)			
DEV*	1.167	1.159	1.490
EMOP	4.140	3.509	2.473
PRRO	2.208	3.299	5.304
Subtotal excluding Iraq	**7.515**	**7.967**	**9.267**
Iraq	1.821	1.607	n/a
Total	**9.335**	**9.574**	**9.267**

*Development programme.

In order to make beneficiary numbers comparable between periods, it is possible to use the ration of the 2006–2007 management plan and apply it to the actual food distributed in 2004-2005. This would give the beneficiary numbers indicated in Table II(b) and II(c).

TABLE II (B): 2006–2007 RATIONS (KG)	
DEV	37.2
EMOP	84.1
PRRO	65.9

TABLE II (C): REVISED BENEFICIARY CASELOAD BASED ON FOOD RATIONS IN 2006–2007 BIENNIUM

	2002–2003 Actual	2004–2005 Actual	2002–2005 % change	2006–2007 Planned	2004–2007 % change
Beneficiaries (millions)					
DEV	31.4	31.2	-1	40.1	29
EMOP	49.2	41.7	-15	29.4	-30
PRRO	33.5	50.1	49	80.5	61
Subtotal, excluding Iraq	**114.1**	**123.0**	**8**	**150.0**	**22**

Had the full planned rations for 2006–2007 been distributed in 2004–2005, WFP would have met the needs of only 123 million people instead of the 184 million as reported, or 33 percent fewer. These numbers exclude the Iraq programme. In 2002-2003, WFP would have fed 114 million beneficiaries, or 24 percent fewer than were actually fed.

Applying a constant ration in order to make beneficiary numbers comparable makes the result proportional to tonnage. Tonnage is therefore a more useful and reliable basis for calculating comparable unit costs.

ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
DDU	delivered duty unpaid
DEV	development programme
DSC	direct support costs
EMEA	Extended Mission Evacuation Allowance
EMOP	emergency operation
IMF	International Monetary Fund
IRA	Immediate Response Account
ISC	indirect support costs
LTSH	landside transport, storage and handling
MISTS	minimum security telecommunications standards
MOSS	minimum operating security standards
NGO	non-governmental organization
ODOC	other direct operational costs
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative (budget)
SO	special operation
UNHAS	United Nations Humanitarian Air Service
UNHRD	United Nations Humanitarian Resource Depot
UNJLC	United Nations Joint Logistics Centre
UNSECOORD	Office of the United Nations Security Coordinator