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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.

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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).

* Office of Budget and Financial Planning (formerly OEDB).



EXECUTIVE SUMMARY

This document is the second Update on the Management Plan (2006–2007); the first was submitted to the Board's First Regular Session in 2006.

The planned programme of work of WFP has increased from US\$5.793 billion outlined in the Management Plan to US\$5.959 billion estimated at 31 March 2006.

The latest funding forecasts predict total funding of US\$5.4 billion for the biennium, generating US\$353 million in indirect support cost income. The PSA budget, approved at US\$368 million, rises to US\$373 million when carry-over allotments are included. The Secretariat has introduced a calendar-based Programme Support and Administrative budget and a quarterly Programme Support and Administrative report to monitor and manage the balances more effectively. The details of the final Programme Support and Administrative carry-over amounts are outlined in this update.

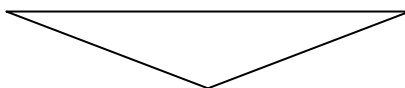
Details of the use of existing authorized allocations for capacity building and capital investment from the Programme Support and Administrative Equalization Account are also provided.

An overview of the Programme Support and Administrative Equalization Account is provided and a proposal for its use made as follows:

- US\$20 million to the Immediate Response Account
- US\$3.7 million for implementation of International Public Sector Accounting Standards

A preliminary proposal for expanding emergency response capacity is also outlined, with a detailed proposal to be presented at a later session of the Board.

DRAFT DECISION*



The Board:

- i) takes note of the information contained in “Update on the WFP Management Plan (2006–2007)”;
- ii) approves the transfer to the IRA of US\$20 million from the positive balance on the PSA equalization account; and
- iii) authorizes the Executive Director to allot up to US\$3.7 million from the PSA equalization account balance to cover the implementation of International Public Sector Accounting Standards.

* 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

1. In the Management Plan approved by the Board at its November 2005 session, the Secretariat reaffirmed its commitment to providing updates on implementation of the plan during the biennium. The first update on the Management Plan presented at the February 2006 session informed the Board about the status of carry-over allotments from the previous biennium. The report also included the WFP organizational chart for 2006–2007 as requested by the Board. No information on the implementation of the Management Plan (2006–2007) was included in the first update as no useful information was available at that early stage of the biennium.
2. This second update returns to the format used for the updates provided to the Board throughout 2004–2005; it reports on the first quarter of the current biennium.

BACKGROUND

3. The Management Plan (2006–2007) used a needs-based methodology for programme costs; setting of the Programme Support and Administrative (PSA) budget took into consideration the expected level of resources, based on historical funding levels.
4. The Secretariat recognizes that the level of funding projected may not be available from donors; it is therefore continuously reviewing indirect support cost (ISC) income to ensure that PSA expenditure levels are sustainable.
5. The Secretariat considers that ISC income in this biennium has so far been sufficient to cover the PSA budget.

OPERATIONAL OVERVIEW

6. The biennial programme of work — all the direct costs outlined in the Management Plan — was US\$5.793 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 approval of the Management Plan, the estimated programme of work has increased by approximately US\$166 million to US\$5.959 billion at 31 March 2006.
8. This increase is mainly owing to new emergency operation (EMOP), protracted relief and recovery operation (PRRO) and special operation (SO) requirements that were not foreseen in the Management Plan. The main new operations are the Kenya EMOP, the Pakistan PRRO, the Niger PRRO, the Indonesia SO and the Pakistan SO.
9. In the Management Plan, a large Democratic People's Republic of Korea (DPRK) EMOP was also envisaged; this operation has recently been scaled down to a smaller PRRO.

10. Table 1 provides an overview of these changes.

TABLE 1: CHANGES TO THE PROGRAMME OF WORK	
	US\$ million
Original Management Plan	5 793
Kenya EMOP	212
Pakistan PPRO	61
Niger PRRO	35
DPRK EMOP	- 459
DPRK PRRO	83
Indonesia SO	91
Pakistan SO	40
Other unforeseen programmes	103
Net change	+ 166
Revised Programme of Work	5 959

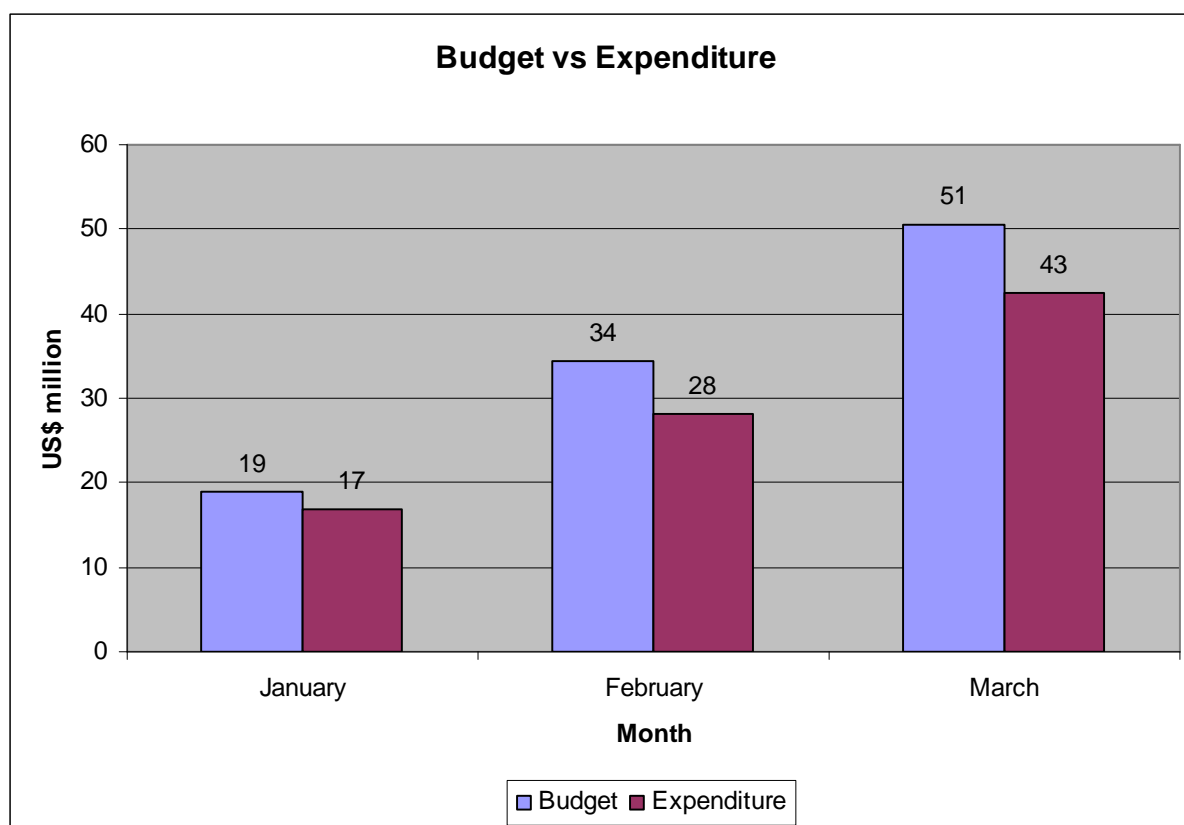
PROJECTED RESOURCE LEVELS

11. The Fundraising and Communications Department currently forecasts a total contribution level of US\$5.4 billion for the biennium. This would generate US\$5,047 million for direct costs and US\$353 million for ISC.
12. This forecast needs to be viewed in the context of operational uncertainties that will have a significant impact on the resources generated over the coming two years.

PROGRAMME SUPPORT AND ADMINISTRATION

13. For the 2006–2007 biennium, the Board approved a PSA budget of US\$368 million, rising to US\$373 million when the carry-over allotments are considered. At the end of March 2006, actual PSA expenditure amounted to US\$43 million, equivalent to 11 percent of the approved PSA budget. The budgeted amount for this period was US\$51 million, implying that the actual expenditure rate was 84 percent of the planned rate.
14. The Secretariat introduced a calendar-based budget for the 2006–2007 biennium in order to increase management focus on the planning and timing of PSA expenditure. This new approach will assist WFP in forecasting PSA expenditures for cash flow purposes and enhancing the management of unspent PSA balances. The approach is aligned with best practices in budgetary management.
15. WFP has introduced an additional quarterly PSA report so that managers can monitor monthly plans against actual expenditure.





CARRY-OVER OF UNSPENT PSA 2004–2005

16. The total amount of PSA carried over from the previous biennium was US\$5.5 million, which is within the authorized amount of US\$7 million. The carry-over covers regular PSA activities — US\$3.7 million — and PSA for the capital and capacity building funds — US\$1.8 million.
17. The main activities for which carry-over of regular PSA was approved are in the Office of the Executive Director (OED), the Administration Department (AD), the Fundraising and Communications Department (FD) and the Operations Department (OD).
18. The approved carry-over from the capital and capacity building funds is for strengthening financial management (SFM), capital asset fund (CAF) and results-based management (RBM) activities.
19. Details of these activities were given in the first Management Plan update; final amounts are provided in the Annex.

OTHER APPROVALS

20. As part of the Management Plan, the Board authorized the Executive Director to allot US\$25 million for non-recurring capacity building and capital investment, which would be funded from the PSA equalization account. Details of this authorized allocation are outlined in Table 2.

	US\$ million
Capital asset fund – WINGS II	15
Capital expenditure fund	5
Strengthening financial management fund	2
Results-based management fund	3
Total	25

21. The following paragraphs outline the status of each of these initiatives.

CAPITAL ASSET FUND — WINGS II

22. WFP's enterprise resource planning system, the WFP Information Network and Global System (WINGS), went live in January 2001.¹ The Secretariat considered that this system should be upgraded to support the evolution of WFP. US\$15 million has been set aside for this purpose.
23. The upgrade project was launched on 1 March 2006. During its first month, the focus has been on analysing all of WFP's main business processes. The WINGS II project will provide an opportunity to integrate all the business process improvements created by various initiatives into the new corporate system. The goal is to ensure that solutions follow standard practices, wherever possible, to minimize the total cost of ownership and reduce the high level of customization that was needed in the original version of the software. The project is organized into eight groups of processes that encompass the main business processes within WFP.

CAPITAL EXPENDITURE FUND

24. As part of WFP's adoption of international accounting standards,² planned capital expenditures funded from PSA for Headquarters and regional bureaux have been segregated into a separate fund. US\$5 million has been budgeted for these costs.
25. At the end of March 2006, US\$0.1 million of this amount had been spent. This relatively low utilization rate is mainly because much of the equipment planned for the biennium is still being ordered. Most of this equipment is related to information and communications technology.

¹ The go-live in January 2001 included all the non-human resources (HR) modules of the system. WFP went live with the HR module in January 2002.

² WFP is planning to implement International Public Sector Accounting Standards (IPSAS) by 2008.



STRENGTHENING FINANCIAL MANAGEMENT FUND

26. The US\$2 million set aside for SFM is intended to consolidate the work of the original fund established in January 2004.
27. Two finance orientation training courses have been planned for 2006. The SFM fund is also funding field finance officer positions for a limited number of country offices where such a position is not yet incorporated into regular project costs.

RESULTS-BASED MANAGEMENT FUND

28. The Results-Based Management Division (OEDR) established in February 2003 to implement a sustainable RBM system will be closed at the end of 2006, once the mainstreaming of RBM-related activities has been completed. The RBM fund has been allocated US\$3 million to consolidate and finalize this initiative; the mainstreaming of RBM is proceeding as planned.

STATUS OF THE PSA EQUALIZATION ACCOUNT

29. The balance of the PSA equalization account at 31 December 2005³ was higher than envisaged in the 2006–2007 Management Plan, as outlined in Table 3.

	PSA equalization forecast from the 2006–2007 Biennial Management Plan document	Actual PSA equalization from the 2004–2005 Financial Statements
31 December 2003 Adjusted balance	176	231
Transfer to IRA/DSCAF*	(44)	(44)
2004–2005 ISC income	364	370
2004–2005 GCCC* income for PSA	-	1
2004–2005 PSA expenditure (including exchange variance)	(369)	(385)
Adjustments	-	(2)
Capital and capacity funds:		
Security upgrade fund	(20)	(20)
Capacity building fund 2004–2005	(29)	(29)
31 December 2005 Closing balance	78	122

* Government counterpart cash contribution.

³ As outlined in the 2004–2005 Biennial Financial Statements.



30. This increase arose because the balance at 31 December 2003 included confirmed amounts for ISC that had been excluded from the Management Plan estimates as part of a prudent PSA Budget setting process. Since the Management Plan was prepared, the Secretariat has established that these amounts will be received and that the opening balance of US\$231 million is an accurate figure.
31. In view of this and of the latest income forecasts, Table 4 outlines the revised forecast for this account for the 2006–2007 biennium.

TABLE 4: PSA EQUALIZATION ACCOUNT, 2006–2007 (US\$ million)		
	PSA equalization forecast from the 2006–2007 Management Plan document	PSA equalization forecast Latest forecast
1st January 2006 Opening balance	78	122
2006–2007 ISC income	327	353
2006–2007 PSA expenditure	(368)	(368)
Carry over	-	(5)
Capital and capacity funds 2006–2007	(25)	(25)
31 December 2007	12	77

PROPOSAL FOR THE USE OF THE PSA EQUALIZATION ACCOUNT

32. The Secretariat has outlined a proposal for the role of the PSA equalization account and the management of the PSA reserve balance in the Review of Indirect Support Costs Rate paper (WFP/EB.A/2006/6-C/1) for approval at the Board's 2006 Annual session.
33. As part of its strategy to reduce the PSA equalization balance to the target level, the Secretariat proposes the following:
- That US\$20 million of the current balance be transferred to the IRA; and
 - That US\$3.7 million be set aside for the implementation of International Public Sector Accounting Standards (IPSAS).
34. Details of these proposals are outlined below.



IMMEDIATE RESPONSE ACCOUNT (IRA)

35. The Secretariat proposes that US\$20 million from the PSA Equalization Account be transferred to the IRA.
36. The IRA is a replenishable and revolving financing mechanism used by WFP to fund operations in life-threatening and emergency situations. Its use is limited to financing of urgent food and non-food needs, as well as emergency preparedness activities.
37. Allocations from the IRA are increasing as WFP strives to improve its emergency response and effectiveness. So far in 2006, US\$55 million has been allocated from the IRA to launch new operations and avert critical pipeline breaks. Of the 17 operations that benefited from the IRA this year, ten are EMOPs, five are PRROs, one is a special operation (SO) and one is a preparedness activity.
38. The IRA mechanism is instrumental in enabling WFP to respond swiftly to emerging or rapidly increasing humanitarian needs. However, the balance of the IRA seldom reaches the target level of US\$70 million. At the end of April 2006, the amount available for allocation from the IRA was US\$19 million. Donor contributions to the IRA in the first quarter of 2006 amounted to US\$11 million.
39. Taking into consideration the current balance of the PSA equalization account, it is proposed to transfer US\$20 million from this account to the Immediate Response Account.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

40. The paper “Second Progress Report on the Implementation of International Accounting Standards” (WFP/EB.A/2006/6-I/1) outlines the proposal to implement IPSAS and states the associated costs. The Secretariat recommends that the Board approve an allocation of US\$3.7 million for the implementation of this project from the PSA equalization account.

EMERGENCY RESPONSE CAPACITY

41. In addition to the above, as outlined in the Biennial Management Plan (2006–2007), WFP is increasingly asked to respond to major emergencies; the plan accordingly focuses on strengthening the organizations capacity to meet these expectations. During the first part of 2006, the Secretariat carried out further analysis on its capacity to respond effectively and efficiently to four significant new emergencies at any one time.
42. In recent years, WFP has been able to respond to four or more major emergencies, primarily because these occurred sequentially. If WFP should be in a position to address four concurrent major emergencies, there would be a need for an increase beyond the amount envisaged in the 2006–2007 Management Plan. The preliminary analysis carried out by the Secretariat would lead to a conclusion that capacity needs to be expanded in the following areas:

Vulnerability Analysis and Mapping (VAM)

43. The effectiveness of a humanitarian response depends on the ability to identify emerging food security problems promptly, assess needs and plan an intervention. The availability of reliable information about the most vulnerable people and an understanding of the nature of food insecurity and risks to livelihoods are crucial for operational planning in all settings. Augmented human and financial resources in this area would lead to additional



comprehensive food security and vulnerability analyses and food security monitoring systems. An augmentation of staff capacity would result in an immediate improvement of project performance monitoring, ensuring that country offices have the right available staff to meet programme monitoring objectives.

Improving Logistics Surge Capacity and Predictability of Response

44. WFP's role as lead for logistics within the United Nations cluster system requires capacity to respond to emergencies through logistics, transport and supply chain management. To address the increased needs, the Secretariat is proposing to create emergency response teams that will include all disciplines in Transport and Procurement Division (ODT) – shipping, air, surface, COMPAS, SO and safety. These teams would be posted in Headquarters and in the regional bureaux. They will form the first 48-hours deployment and are fundamental to ensuring WFP's initial start-up of an emergency response is consistent and carried out by the most experienced and appropriate staff.

WFP Adaptation of United Nations Humanitarian Response Depot (UNHRD) Network

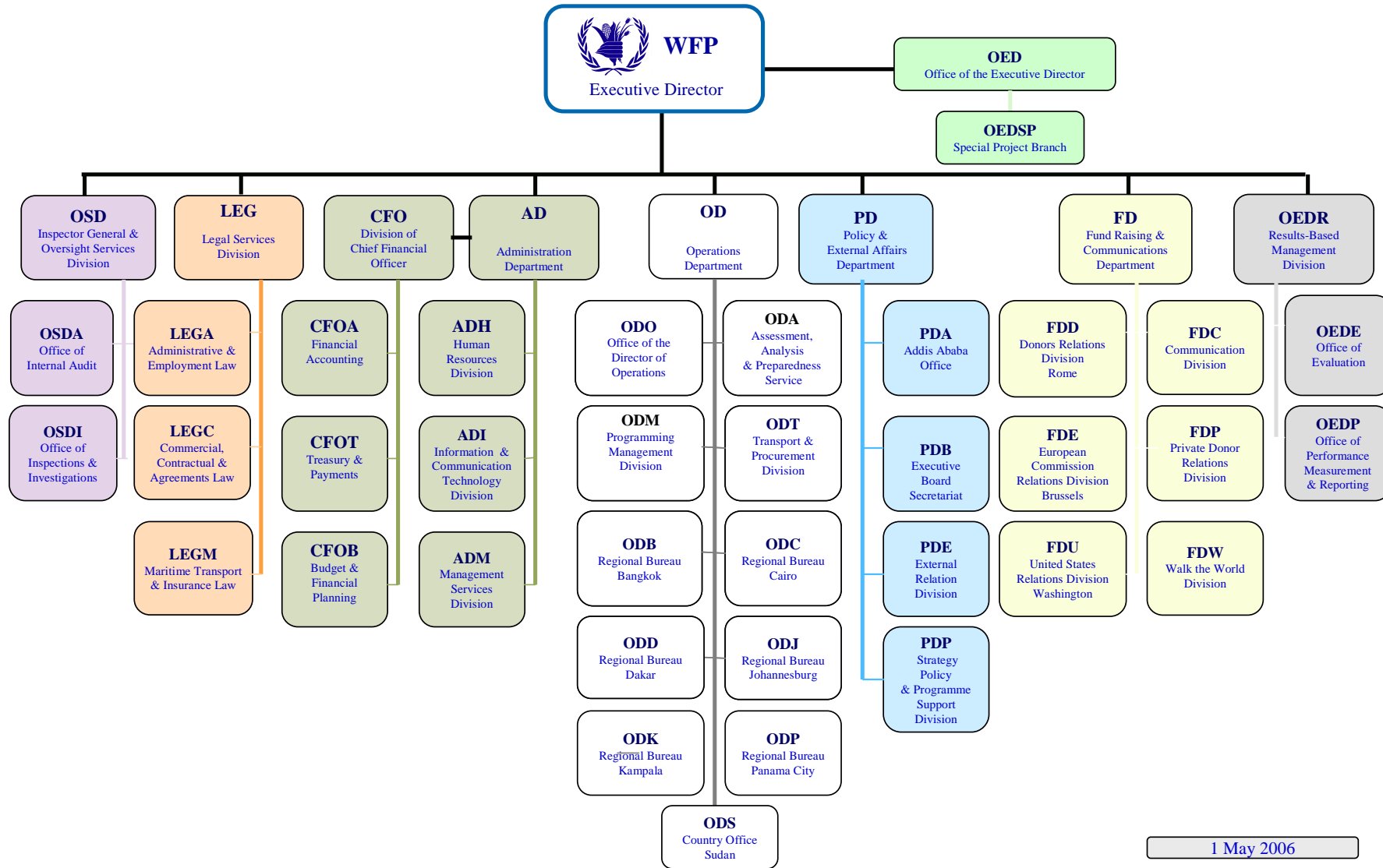
45. WFP's UNHRDs provide strategic stockpiles from which deliveries of essential food supplies and equipment are made in the first hours of an emergency. There are currently four depots: Brindisi, Dubai, Phnom Phenh and Panama. For WFP to be able to respond to four concurrent major emergencies, promote inter-agency corporation and fulfil its mandate as logistics cluster leader, the UNHRD network needs to be extended.
46. The Secretariat plans to develop a proposal to ensure that WFP has the capacity to respond to four major emergencies simultaneously. This proposal, together with a request for funding, will be presented for approval at the Second Regular Session of the Board in 2006. Initial estimates indicate that US\$10 to US\$15 million would be required to implement such a proposal.

WFP ORGANIZATIONAL CHART

47. The following is the latest WFP organizational chart. The most notable change since the last Management Plan update is the incorporation of the Chief Financial Officer (CFO) office, which was formalized by the Executive Director in March 2006.



Organizational Chart 2006



1 May 2006

ANNEX

ORIGINAL PSA BUDGET AND 2004–2005 CARRY-OVER			
DIVISION	ORIGINAL PSA 2006–2007 US\$	CARRY-OVER US\$	TOTAL AMOUNT US\$
OED	8 772 000	859 455	9 631 455
OEDB	3 054 000	31 900	3 085 900
LEG	5 924 000	0	5 924 000
OSD	8 006 000	36 000	8 042 000
FD	39 585 000	272 790	39 857 790
PD	37 090 000	48 500	37 138 500
OEDR	5 232 000	296 000	5 528 000
AD	93 026 000	2 270 976	95 296 976
OD	37 590 000	1 466 782	39 056 782
ODB	7 847 000	0	7 847 000
ODJ	7 991 000	22 900	8 013 900
ODK	8 466 000	60 000	8 526 000
ODD (incl. ODDY)	11 674 000	0	11 674 000
ODC	8 592 000	0	8 592 000
ODP*	6 579 000	0	6 579 000
Country offices	72 409 000	100 000	72 509 000
Central appropriation	5 670 000	0	5 670 000
TOTAL	367 507 000	5 465 303	372 972 303

* Formerly ODPC



ACRONYMS USED IN THE DOCUMENT

AD	Administration Department
CFO	Division of Chief Financial Officer
CFOB	Office of Budget and Financial Planning
DPRK	Democratic People's Republic of Korea
DSC	direct support costs
EMOP	emergency operation
FD	Fundraising and Communications Department
HR	human resources
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support cost
LTSH	landside transport, storage and handling
OD	Operations Department
ODOC	other direct operational costs
ODT	Transport and Procurement Division
OEDB	Office of Budget
OED	Office of the Executive Director
OEDR	Result-Based Management Division
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administration (budget)
RBM	results-based management
SFM	strengthening financial management
SO	special operation
UNHRD	United Nations Humanitarian Response Depot
WINGS	WFP Information Network and Global System