



OPERATIONAL COST AND PRICE REVIEW

Informal Consultation of the
Executive Board
January 21, 2008





Cost Review Background

- Second Session 2005: Request to prepare an analysis on WFP's cost structure
- Annual Session 2006: Analysis of WFP's Cost Components
- Annual Session 2007: 2006 APR Analysis by Cost Component (pg. 61-64)
- Management Plan 2008-09: Operational Budget by Cost Component (pg 40-45)
- Summer 2007: Request for consultation on Cost Components





Price Review Background

Unprecedented market changes over past six months:

1. Food price increases and uncertainty
2. Fuel price increases and
3. Currency market: continued weakening of US dollar





Presentation Outline

1. Historical Review

a. Trend of Operational Expenditures

b. Unit Costs and Cost Drivers

c. Impact of major operations

2. Impact of Recent Market Trends



Presentation Outline

1. Historical Review

a. Trend of Operational Expenditures





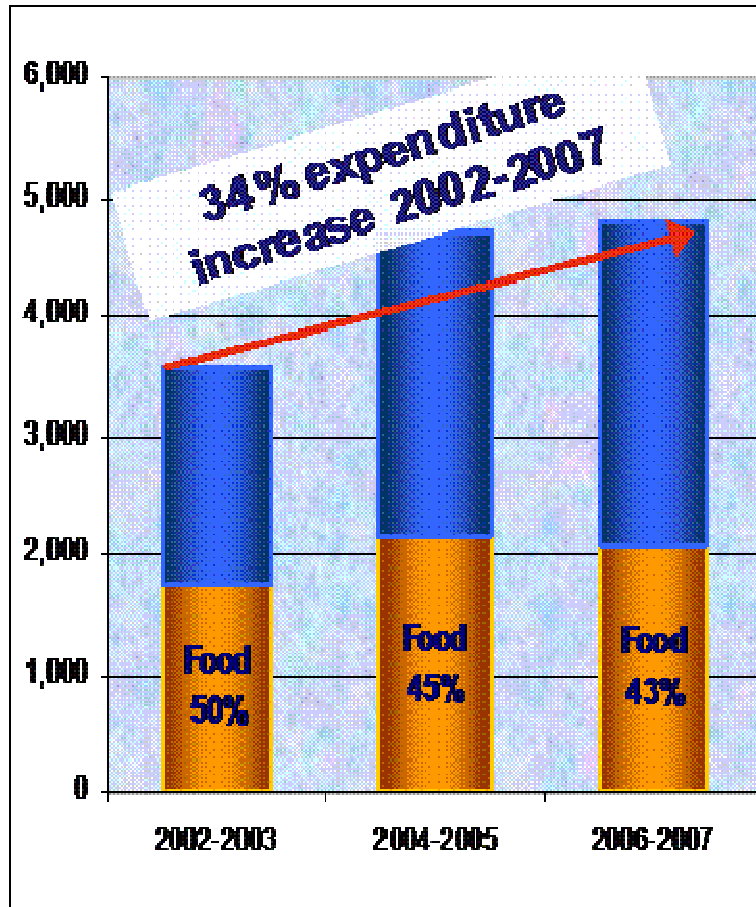
Trend of Operational Expenditure

Expenditures by Programme Category (US\$ million)

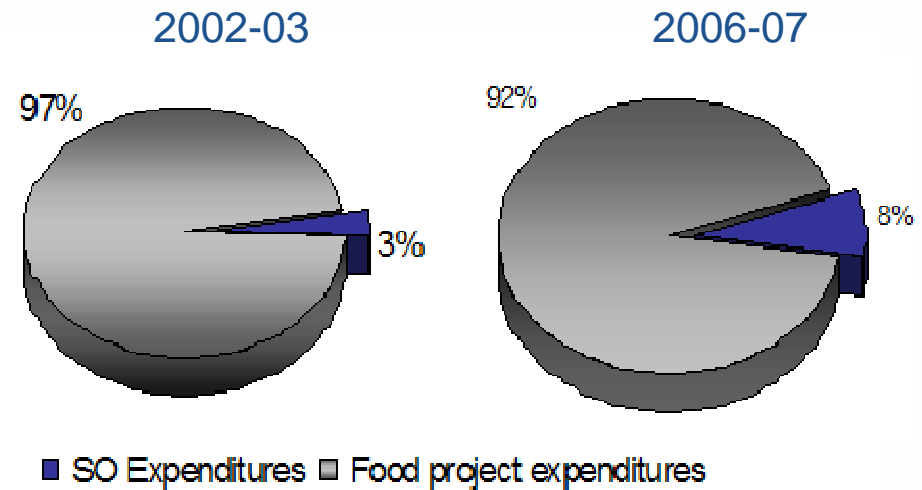
	2002-03 Actual	2004-05 Actual	2006-07 Estimate	% Change 2002-2007
EMOP	1,870.5	2,039.2	1,427.7	-24%
PRRO	1,149.0	1,913.7	2,409.1	110%
Development	423.1	515.3	567.5	34%
<i>Sub-total: Food Projects</i>	<i>3,442.6</i>	<i>4,468.2</i>	<i>4,404.2</i>	<i>28%</i>
Special Operations	118.9	257.4	383.0	222%
<i>Sub-total: Not related to food projects</i>	<i>118.9</i>	<i>257.4</i>	<i>383.0</i>	<i>222%</i>
Total Operational Expenditures	3,561.5	4,725.6	4,787.2	34%
Iraq	1,069.8	762.0		
Total Expenditure	4,631.3	5,487.6		



Trend in Operational Expenditure



All programme categories including Special Operations



Special operations expenditures increased by 222%



Presentation Outline

1. Historical Review

a. Trend of Operational Expenditures

b. Unit Costs and Cost Drivers





Unit Cost Methodology

The methodology for unit cost comparisons:

- Includes only food projects
- Average expenditure per metric tonne is calculated dividing:
 - Expenditure:
 - 2002-03 and 2004-05 are based on actual expenditures
 - 2006-07 expenditures are estimated
 - By Metric tonne:
 - For food costs this is food purchased and food donated in-kind in the given period
 - For the other cost components this is actual food distribution to WFP beneficiaries
 - Figures include food procured by WFP or by donors and donated to WFP



Unit Costs for food-related projects

Average Unit Cost (US\$/MT)			
	2002-03 Actual	2004-05 Actual	2006-07 Actual estimated
Food	215.9	256.5	284.3
External transport	52.7	65.8	64.6
LSTH	115.5	155.7	187.9
ODOC	10.0	13.7	14.6
DSC	44.8	56.1	80.4
TOTAL	458.1	560.8	655.9



Food – Biennia Unit Cost

	2002-03	2004-05	2006-07
Food (rate per ton)	215.9	256.5	284.3

↑ 32%

Major Food Cost Drivers:

- Commodity prices
- Type of commodity
- Delivery terms
- Source of commodities, purchase location and purchase terms
- Timing and availability

This increase uses the average cost for the full biennia. It does not fully reflect the dramatic price increases towards the end of 2007 – see below.





External transport – Biennia Unit Cost

	2002-03	2004-05	2006-07
Ext. Transport (rate per ton)	52.7	65.8	64.6

↑ 23%

Major drivers:

- Delivery terms
- Location of WFP activities / ports
- Type of commodities and packaging
- Unpopular shipping lanes used and need for transshipment
- Poor port infrastructure
- Ocean freight market and its capacity
- Fuel price





LTSH – Biennia Unit Cost

	2002-03	2004-05	2006-07
LTSH (rate per ton)	115.5	155.7	187.9

↑ 63%

Major drivers:

- Fuel, tyres and lubricants costs
- Weakening of US dollar
- Inflation
- Country specific factors (port costs, transport infrastructure, road conditions, security environment)
- Transport capacity on local markets

This increase uses the average cost for the full biennia. It does not fully reflect the dramatic price increases towards the end of 2007 – see below.





ODOC – Biennia Unit Cost

	2002-03	2004-05	2006-07
ODOC (rate per ton)	10.0	13.7	14.6

↑ 46%

Major drivers:

- Type of intervention / activities
 - Rehabilitation activities
 - Capacity building
 - Improved targeting
 - Cooperating partners and government counterparts costs
 - Weakening US dollar
 - Local inflation
-



DSC – Biennia Unit Cost

	2002-03	2004-05	2006-07	↑ 79%
DSC (rate per ton)	44.8	56.1	80.4	

←—————→

Major drivers:

- WFP presence
- Security conditions & MOSS compliance
- Investments in capital equipment
- Weakening US dollar
- Local inflation





Presentation Outline

1. Historical Review

a. Trend of Operational Expenditures

b. Unit Costs and Cost Drivers

c. Impact of major operations



Impact of major operations

	Iraq	DPR Korea	Ethiopia	Ethiopia	DPR Korea	Sudan
	2003	2003	2003	2005	2005	2007
% of Operational Budget	38%	8%	10%	8%	6%	21%
Average cost per MT in USD	637.4	402.5	414.4	501.9	370.5	940.4
Food as % of total cost	71%	73%	52%	53%	67%	28.5%
LTSH rate per MT in USD	77.3	8.0	126.5	104.9	15.0	433.4
ODOC rate per MT in USD	10.5	2.9	4.1	10.5	7.9	9.8
DSC rate per MT in USD	23.2	20.2	19.1	22.8	17.3	136.0



Impact of major operations

	DPR Korea	Ethiopia	Sudan
	2003	2005	2007
% of Operational Budget	8%	8%	21%
Average cost per MT in USD	402.5	501.9	940.4
Food as % of total cost	73%	53%	28.5%
LTSH rate per MT in USD	8.0	104.9	433.4
ODOC rate per MT in USD	2.9	10.5	9.8
DSC rate per MT in USD	20.2	22.8	136.0



LTSH drivers

DPR Korea (2003 – 8%) 8 US\$/MT	Ethiopia (2005 – 8%) 105 US\$/MT	Sudan (2007 – 21%) 433 US\$/MT
<ul style="list-style-type: none"> • Government arranged all internal transport, storage and handling • WFP reimbursed a fixed rate to cover part of government transport costs 	<ul style="list-style-type: none"> • Land-locked country • Government incurs much of the storage, transport and distribution cost 	<ul style="list-style-type: none"> • Poor infrastructure • Limited trucking capacity at WFP final distribution points, WFP maintains a fleet of 225 trucks • Climatic conditions affecting access • Insecure conditions & remote locations



DSC drivers

DPR Korea (2003 – 8%) 20.2 US\$/MT	Ethiopia (2005 – 8%) 22.8 US\$/MT	Sudan (2007 – 21%) 136.0 US\$/MT
<ul style="list-style-type: none"> • Main office and 5 sub-offices • 59 staff budgeted • R&R for international staff 	<ul style="list-style-type: none"> • Most of country in Security Phase I • Main office and 7 sub-offices • 282 staff budgeted 	<ul style="list-style-type: none"> • Many locations are under Security Phase III • Complexity of operation • 38 sub-offices • Some 1,900 staff budgeted • Large staff-related cost (R&R and Hazard Pay) and travel budget



Conclusion

- External factors that cannot be controlled have a major influence on costs;
- Cost drivers vary depending on cost component
- However the largest determinant of our operational cost structure is the location and nature of the individual operations within the period, which change dramatically over time





Way Forward

- Regular reports on Cost Structure:
 - Annually: APR
 - Biennially: Cost Component Study

- Next report covering final 2006-07 figures:
 - November 2008





Presentation Outline

1. Historical Review

a. Trend of Operational Expenditures

b. Unit Costs and Cost Drivers

c. Impact of major operations

2. Impact of Recent Market Trends



Major Changes Since MP

Management Plan operational requirements:

- Prepared: January to June 2007
- Presented to Executive Board: June 2007

Major economic changes in past six months:

- Unprecedented commodity price increases
- Continued fuel price escalation: (oil up 30 – 35 %)
- Continued weakening of US dollar (for example 8% against the Euro)



Background

FAO Food Outlook Report (November 2007):

- Annual increase in 'the FAO food price index ... of roughly 37 % ... primarily dairy and grains' to end of September 2007;
- 'not just a selected few [commodities], but of nearly all major food and feed commodities';
- 'accompanied by much higher price volatility [and market] uncertainty'
- Wheat prices were described as one of the 'main protagonists'

International Food Policy Research Institute has concluded that 'these high prices do not appear likely to fall soon'



Economic Changes (1)

1. Food Commodities: impact of increased food prices





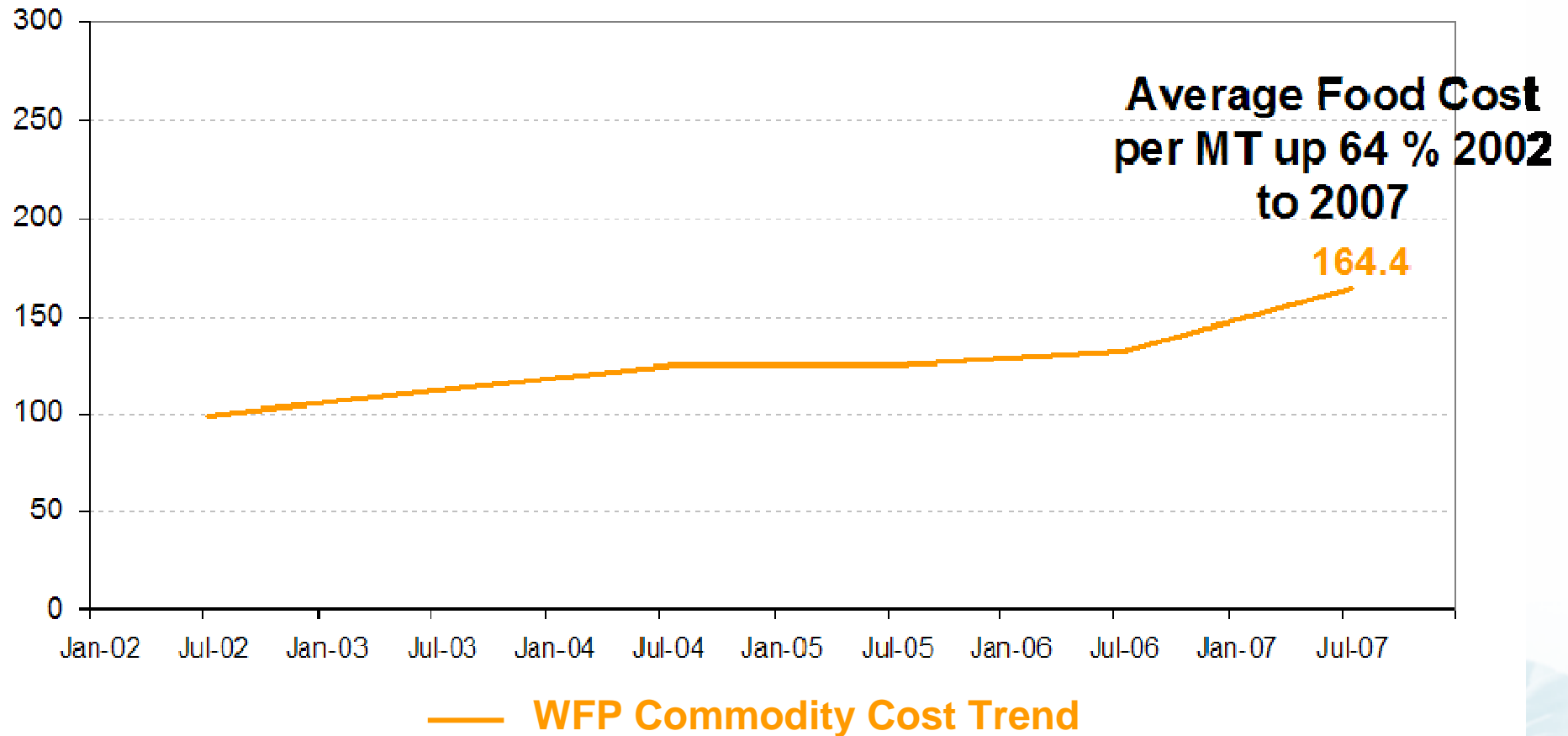
Terminology

- Distinguish between:
 - **Cost:** measured as WFP global average expenditure per MT for a given period
 - **Price:** amount payable per MT for a specific commodity at a given point in time



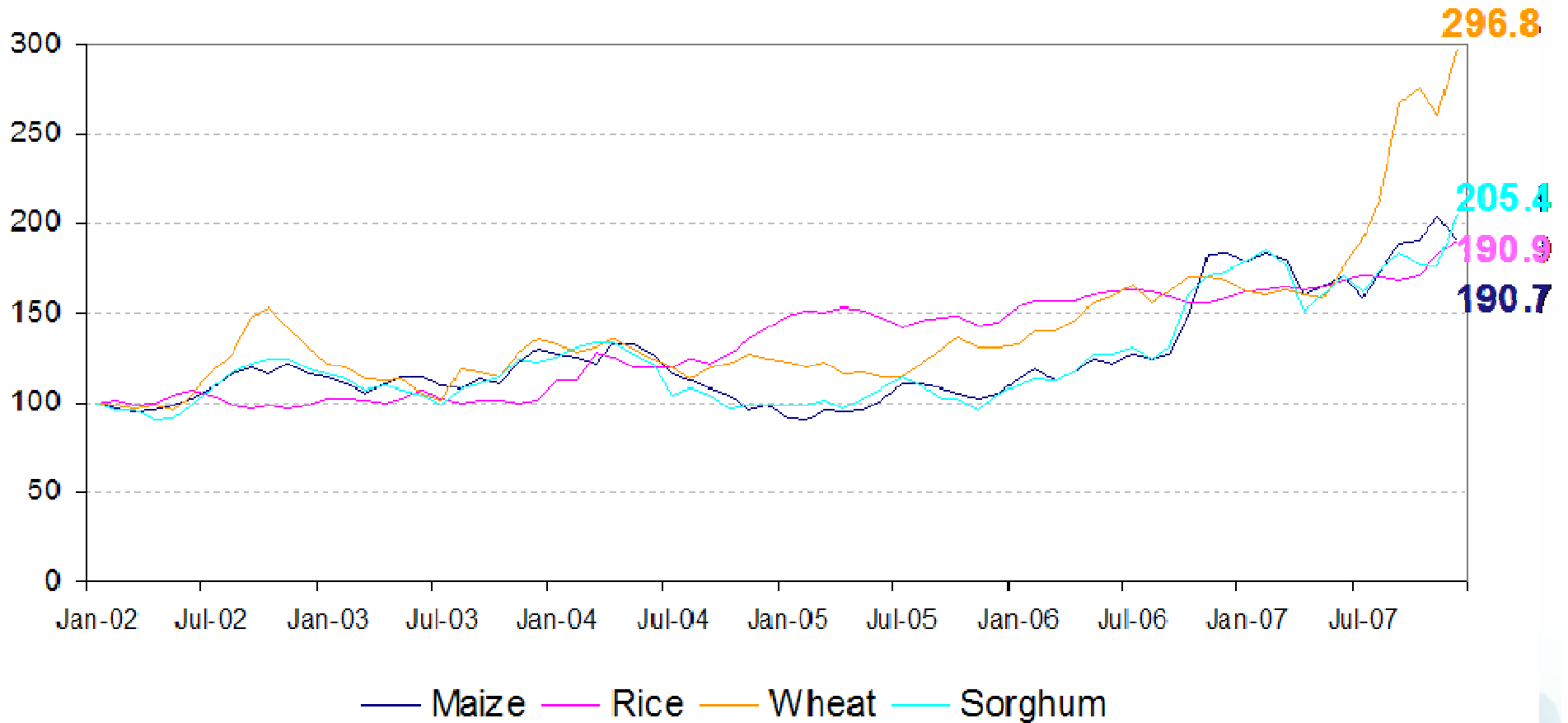


WFP Yearly Average Food Cost per MT





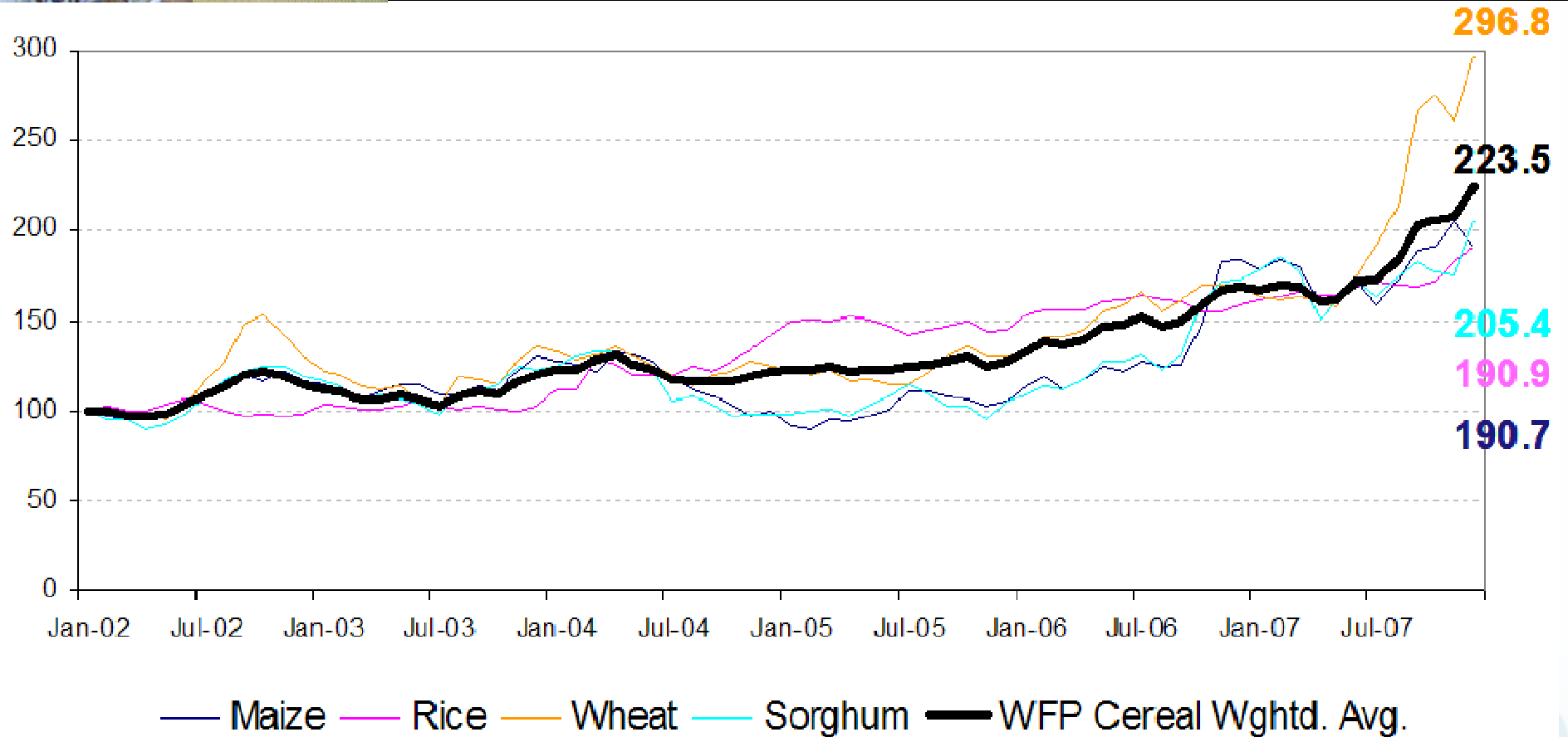
International Commodity Prices



Data source: FAO / International Grain Council

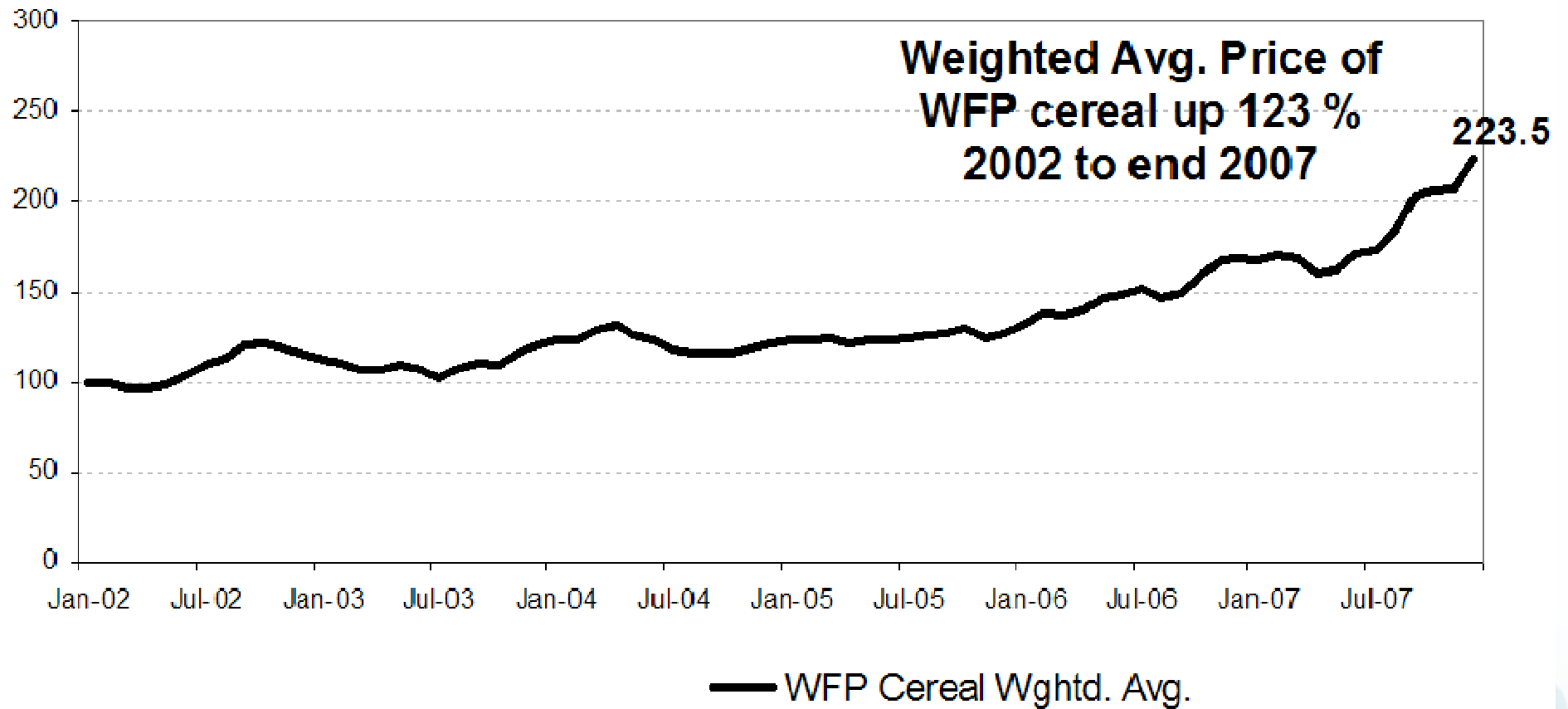


International Commodity Prices



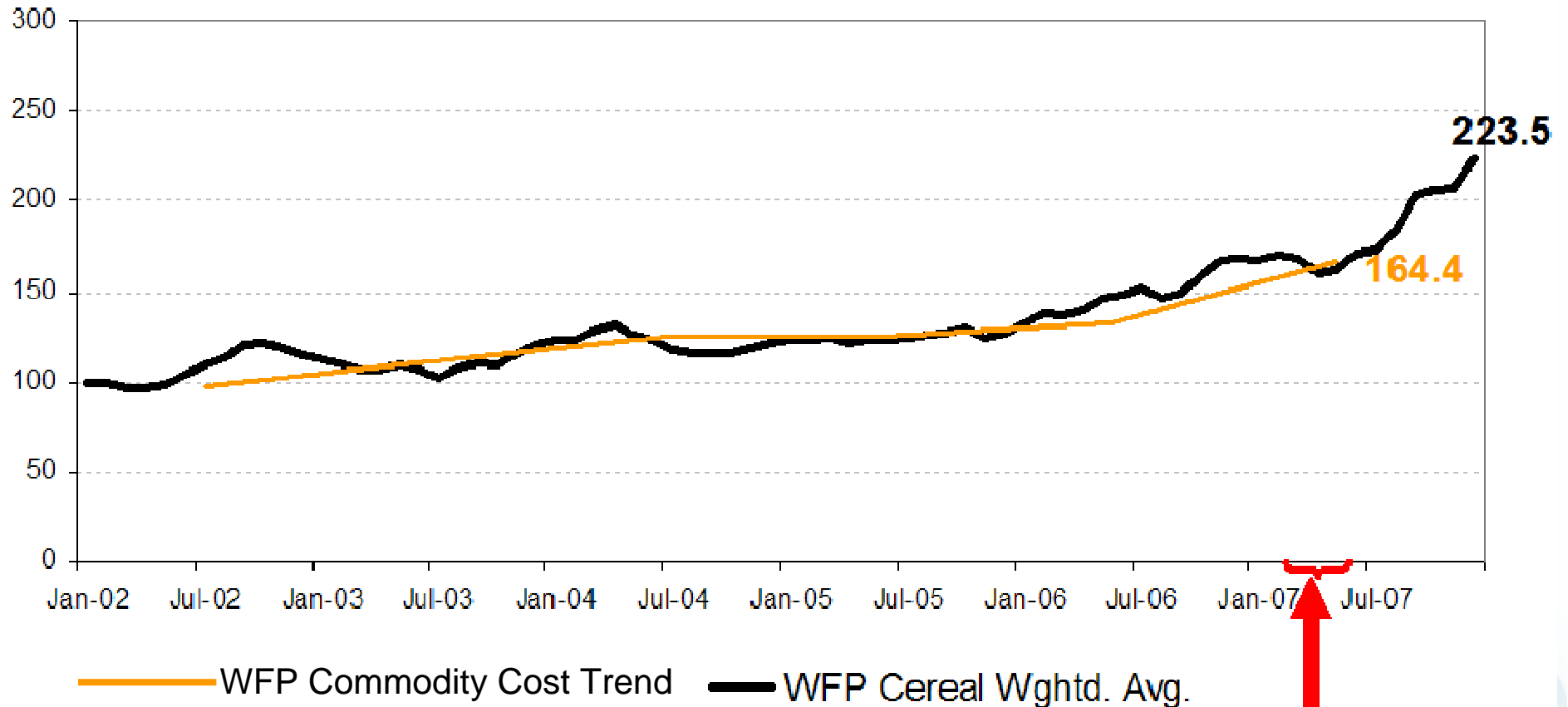


International Commodity Prices





International Commodity Prices



**Operational Figures for
Biennial Management Plan
Finalised**



Economic Changes: Food Prices

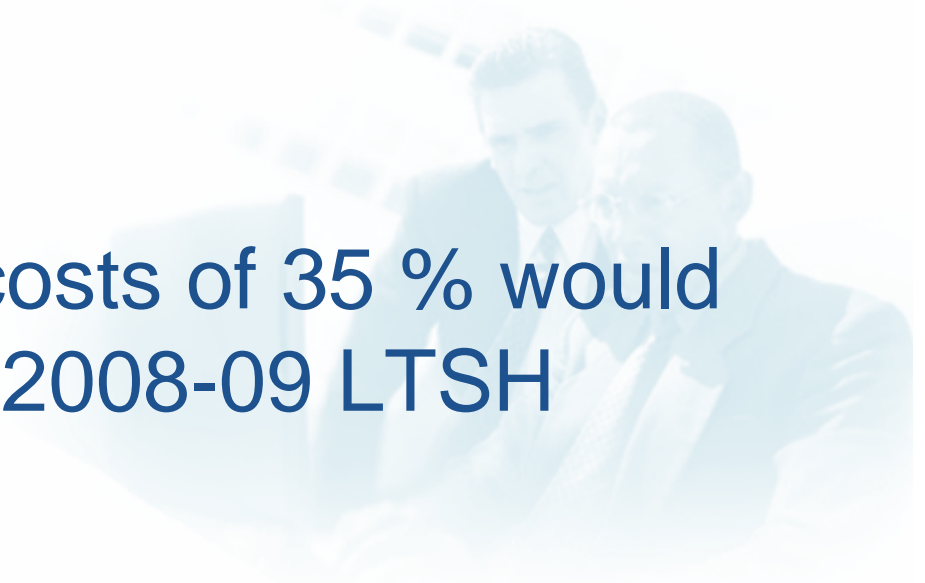
1. Impact of food price increase on original Management Plan 2008-09 requirements:

- Using actual prices achieved in second half of 2007: additional \$ 520 million, or 21%
- Using actual prices achieved in last quarter of 2007: additional \$ 587 million, or 24 %
- Both figures conservative: Assumes no further price escalation



Economic Changes: Fuel

2. Impact of fuel price increase:
 - Oil prices up 30 – 35 % since June 2007
 - Fuel costs influence approximately 25 % of total LTSH costs
 - An increase in fuel costs of 35 % would add \$ 133 million to 2008-09 LTSH requirements





Economic Changes: Forex

3. Impact of continued weakening of US \$:
 - LTSH requirements: \$ 43.9 million approximate increase
 - DSC requirements: \$ 31.6 million approximate increase
 - ODOC requirements: \$ 6 million approximate increase





Economic Changes

Conclusions:

- Commodity, fuel and foreign exchange markets highly uncertain
- However, based on latest market conditions, the cost of fully meeting the needs of 90 million beneficiaries in 2008-09 can be expected to rise by a minimum of \$ 735 million, of which over \$ 500 million is due to food price increases

Next Steps:

- Programme of Work figures quoted are preliminary estimates
 - February Management Plan update will outline in more detail
 - Project by project review initiated
 - June Management Plan update will present further updates to Programme of Work figures
- 