

BUDGET REVISION TO PROTRACTED RELIEF AND RECOVERY OPERATION

Budget Revision No. 7

Armenia PRRO 100532 – Transitional Relief and Recovery Assistance for Vulnerable Groups

	Cost (United States Dollars)		
	Present budget	Increase	Revised budget
Food cost	7,600,811	3,406,737	11,007,548
External transport	426,439	38,799	465,238
LTSH	921,315	358,650	1,279,965
ODOC	399,947	141,800	541,747
DSC	1,520,829	496,286	2,017,115
ISC (7%)	760,854	310,959	1,071,813
Total cost to WFP	11,630,196	4,753,231	16,383,427

NATURE OF THE REVISION

1. A budget revision to Armenia protracted relief and recovery operation (PRRO 100532) “Transitional Relief and Recovery Assistance for Vulnerable Groups” is proposed to extend-in-time the operation from April to December 2010. This will enable WFP to respond to the recent government request for the continuation of WFP assistance for 55,000 most vulnerable and food-insecure people and support the Government’s efforts to address the impact of the global financial crisis in Armenia. The budget increase is for US\$3.4 million for food and cash transfers; with associated costs for external transport, land transport, storage and handling (LTSH), other direct operational costs (ODOC), direct support costs (DSC) and indirect support costs (ISC). The budget revision totals US\$4.8 million.
2. An assessment of the impact of the global financial crisis in Armenia conducted in March-April 2009 confirmed that the country has been heavily hit by decreased international remittances and reduced labour opportunities.¹ A follow-up assessment is ongoing. Results will determine WFP’s future interventions in Armenia beyond 2010.

JUSTIFICATION FOR THE BUDGET REVISION

Summary of existing project activities

3. The objectives of the PRRO are to protect livelihoods in emergencies (SO1 is “Save lives and protect livelihoods in emergencies”); maintain adequate food consumption among targeted vulnerable households (SO3 is “Prevent acute hunger and invest in disaster preparedness and mitigation measures”); and achieve progress towards nationally-owned hunger solutions by the Government (SO5 is “Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase”). The PRRO is also contributing towards the outcome 3 of the United Nations Development Assistance Framework (UNDAF 2010-2015) for Armenia.²

¹ WFP, Rapid Assessment of the Impact of the Global Financial Crisis in Armenia, May 2009.

² Outcome 3 of the UNDAF for Armenia is related to “Access and Quality of Social Services”.

4. The PRRO was originally designed to reach 110,000 beneficiaries through relief food distributions, food for work (FFW), food for education (FFE) and food for training (FFT). WFP was initially planning to handover its activities to the Government and other stakeholders and phase out in December 2008 and food for education ceased in 2008. However, given the impact of the global financial crisis on the country, WFP reconsidered its earlier plan and, at the Government's request, extended-in-time the PRRO until March 2010.
5. In 2009, WFP was forced to reduce the scale of its programme as a result of funding shortfalls. Approximately 65,000 beneficiaries have been targeted through relief food distributions, FFW and cash-for-work (CFW) projects. A CFW pilot project benefiting some 5,400 beneficiaries was initiated in October 2009 to test the effectiveness of cash transfers in addressing food insecurity among vulnerable populations in Armenia. C/FFW activities aim to address the negative impact of the financial crisis and enhance household food security. WFP's assistance complements the Government's public work programmes launched in response to the crisis and targets the most vulnerable households.
6. Monitoring reports suggest that the CFW pilot project has contributed to improve household food security: 85 percent of the respondents benefiting from CFW reported that 70-75 percent of their household income was spent on food. In addition to purchasing food, the cash received allowed them to pay-off part of their debts contracted with food shops, and purchase additional food on credit. The CFW pilot project has also helped to maintain small shops as an important community service.

Conclusion and recommendation of the re-assessment

7. A combination of factors clearly points towards continued vulnerabilities as a result of the global financial crisis:
 - Jobs have been lost as export-related factories have closed down.
 - Traditional coping mechanisms enabling households to expand their income sources can no longer be used (migration, diversification of jobs, increased indebtedness).
 - Thirty percent of households report decreasing their visits to health services and purchase of medicine.
 - More and more students are dropping from secondary-level education (9-11 grades), compromising future job opportunities.
8. Increases in food prices and living costs in 2008 and the global financial crisis reversed the achievements of Armenia's economic recovery. The gross domestic product (GDP) reduced by 9.7 percent during the first quarter of 2009; by the end of August 2009, the GDP reduction had reached 18.3 percent, one of the steepest GDP declines in the world.³
9. Remittances, accounting for approximately 25 percent of Armenia's GDP in the first half of 2008, decreased by more than half in 2009. Large numbers of migrant workers returning to Armenia and the shutdown of local industries contributed to a 50 percent increase in unemployment between March and December 2009.⁴
10. While food prices have come down from their peak, they remain above the past 5-year average, especially in urban areas.⁵ Due to the depreciation of the national currency, the purchasing power of salaried workers decreased by 25 percent in 2009. The situation is worse for those unemployed or with an irregular, low-paid occupation.

³ Statistical data/Economic Indicators. Central Bank of Armenia, 2009.

⁴ *ibid*

⁵ National Statistics Services of Armenia (NSS RA), Food Security Bulletin, 2009.

11. Recent studies in Armenia have estimated poverty and food consumption using different methods and indicators. As a result, the estimates of the number of people who are food-insecure differ according to different reports. For instance, the 2008 Armenia Integrated Living Conditions Survey estimated that the poorest households (taken as 20 percent of the population) were consuming less than 2,100 kcal per capita per day on average.⁶ A WFP/Government assessment dated August 2009⁷ estimated that 5 percent of the population had an inadequate diet based on food consumption score.
12. The draft report of the “Joint United Nations Survey on the Impact of the Global Financial Crisis on Household Vulnerability” conducted in March-April 2009 revealed that poor families spend up to 50 percent of their monthly expenditures on food. As a result of high food prices, about 78 percent of households have changed their diets to more affordable but less nutritious food and two-thirds have reduced consumption quantities. Food insecurity is higher in urban (6 percent) than rural (3 percent) areas.
13. Although no new nutritional status surveys have been conducted since 2005 to measure the impact on the nutrition situation, the prevalence of micronutrient deficiencies and related health and nutrition problems are likely to have increased among the most vulnerable individuals, including children under 2, pregnant and lactating women, the elderly, and the chronically sick. A Demographic and Health Survey (DHS) is planned for 2010-2011 but in the meantime, the United Nations Children’s Fund (UNICEF) has set up a surveillance system to monitor changes in child well-being as a result of the crisis.
14. To address increasing levels of rural unemployment and inject cash into rural communities heavily in debt, the Government introduced a public works programme. Activities are short-term, unskilled, labour-intensive, and are to improve housing and community infrastructure. The programme currently lacks resources to reach the number of communities in need. The Government has borrowed US\$1.5 billion as emergency loans from international financial institutions (International Monetary Fund, the World Bank, Asian Development Bank), and from the Russian Federation. In addition, the Government has reformed the targeting system of social benefits to reach the most vulnerable families.

Purpose of the extension and budget increase

15. This budget revision proposes to extend the PRRO from April to December 2010 to assist 55,000 beneficiaries among the most vulnerable communities, supporting the Government’s efforts to address the impact of the global financial crisis on food security.
16. The extension will also allow review of WFP support to Armenia, based on ongoing quantitative and qualitative studies on the impact of the global financial crisis. These include a follow-up quantitative assessment measuring the overall changes on food, economic and coping mechanisms that occurred in 2009. The qualitative study is part of a series of six case studies (Armenia, Bangladesh, Ethiopia, Ghana, Nicaragua, Zambia) conducted by WFP. The result of Armenia’s study will feed into a broader review of macroeconomic changes and responses to date, and will support concrete recommendations for WFP interventions beyond 2010.

⁶ Armenia Integrated Living Conditions Survey (ILCS) 2008, National Statistics Services of Armenia.

⁷ Household survey on Assessing the impact of global financial crisis, UN with the Ministry of Labour and Social Affairs (MLSA).

17. A combination of general food distributions, FFW and CFW activities will support and promote the self-sufficiency of vulnerable households. The breakdown of beneficiaries by activity is outlined in table 1 below:

TABLE 1. BENEFICIARIES BY ACTIVITY TYPE			
Activity	Present	Increase (Decrease)	Revised
Relief food distribution	45,000	(15,000)	30,000
Food for work	15,000	0	15,000
Cash for work	5,470	4,530	10,000
Total	65,470	(10,470)	55,000

18. *Relief food distribution:* Relief food will supplement the Government's social welfare system in urban areas and focus on urban poor, refugees and those unable to work. WFP will continue to work with the Ministry of Labour and Social Issues to identify beneficiaries under the relief activity to supplement the Government's benefit package and prevent loss of assets. It will target 30,000 most vulnerable and food-insecure populations in urban areas of Shirak and Lori provinces, as well as in Yerevan city.
19. *Cash/food for work:* C/FFW activities will assist cash-depleted rural communities in the provinces of Gegharkunik, Shirak, Lori and Tavush. These areas have been targeted as they have recorded the highest labour migration rates and loss of remittances. Activities planned under C/FFW will be identified by the targeted communities on the basis of their priority needs. C/FFW activities aim to improve community assets such as drinking water and sanitation facilities, secondary irrigation channels to small plots, community roads and mudflow canals. Activities may also include tree-planting to protect soil, crop production including generation of seed potatoes, nursery and orchard establishment, and land reclamation.
20. C/FFW will target the most vulnerable households among communities that do not benefit from government-led employment-generation projects. Priority will be given to households headed by women, households with many dependants, unemployed heads of households most-hit by the loss of remittances, and households heavily in debt to food shops. FFW will be implemented in areas with limited access to food markets. CFW will be implemented in areas with adequate access to food markets and a functioning banking system.

FOOD REQUIREMENTS

Activity	Cereal (g)	Oil (g)	Pulses (g)	Cash (US\$)	Number of feeding days
Relief food distribution	500	35	20		180
Food for work	900	100	100		90
Cash for work				5.64	90

21. The cash incentive will be the same, at the current level of Armenian dram (AMD) 2,100 (equivalent to US\$5.64) per day. However, the FFW ration will be increased slightly from the current level to bring its value closer to or equivalent to the CFW incentive. Cash will be distributed through banks as was done under the ongoing CFW pilot project.
22. Based on WFP past experience and the recommendation of the World Bank, the duration of C/FFW activities will be on an average of 90 days. This period is in line with labour availability over the agricultural season.
23. Table 3 below provides an overview of the additional food and cash requirements:

Activity	Present	Increase	Revised
Relief food distribution	6,677	2,997	9,674
Food for work	2,914	1,485	4,399
Total food requirements (mt)	9,591	4,482	14,073
Cash transfers (US\$)	555,200	460,000	1,015,200

24. C/FFW interventions will be implemented in partnership with local authorities and a national non-governmental organization (NGO): the Spitak Farmers' Association. The Ministry of Labour and Social Issues will be the cooperating partner for relief. The Government will provide a portion of the landside transport, storage and handling (LTSH) costs, covering storage facilities at distribution points and salaries for social workers involved in food distribution.
25. The Executive Director is requested to approve this budget revision for an extension-in-time to end-2010 with an increase in food and cash transfer costs of US\$3.4 million and total costs of US\$4.8 million.

Approved by:

Josette Sheeran
Executive Director, WFP

Date

ANNEX IA: BUDGET INCREASE COST BREAKDOWN

Commodity Related Portion			Cash & Voucher Transfer	Total Increase
COSTS	Tonnage (mt)	Value (US\$)	Value (US\$)	Value (US\$)
Commodity / Cash & voucher				
Cereals ⁸	3,915	1,821,297		1,821,297
Pulses	243	194,400		194,400
Oil and Fats	324	375,840		375,840
Mixed and Blended Food	-	-		-
Others	-	-		-
Cash Transfer to beneficiaries			1,015,200	1,015,200
Voucher Transfer to beneficiaries			-	-
Total commodity / Cash & voucher		2,391,537	1,015,200	3,406,737
External transport				
		38,799		38,799
LTSH				
		358,650		358,650
ODOC (Other direct operational costs)				
		98,750	43,050	141,800
DSC (Direct support costs)⁹ (see table below for details)				
		360,260	136,026	496,286
Total WFP direct costs				
		3,247,996	1,194,276	4,442,272
Indirect support costs (7%)¹⁰				
		227,360	83,599	310,959
TOTAL WFP COSTS				
		3,475,356	1,277,875	4,753,231

⁸ This is a notional food basket for budgeting and approval. The contents may vary.

⁹ Indicative figure for information purposes. The direct support costs allotment is reviewed annually.

¹⁰ The indirect support cost rate may be amended by the Board during the project.

ANNEX IB

DIRECT SUPPORT REQUIREMENTS (US\$)	
Staff and Staff Related Costs	
International Professional Staff	161,326
International GS Staff	-
Local Staff - National Officers	152,524
Local Staff - General Service	72,788
Local Staff - Temporary assistance	15,882
Local Staff - Overtime	2,700
Hazard Pay & Hardship Allowance	-
International Consultants	-
Local Consultants	-
Non Staff HR: UNV	-
Commercial Consultancy Services	-
Staff duty travel	26,766
Subtotal	431,986
Recurring Expenses	
Rental of Facility	16,200
Utilities General	450
Office Supplies and Other Consumables	3,150
Communications and IT Services	16,650
Equipment Repair and Maintenance	3,150
Vehicle Running Cost and Maintenance	9,450
Office Set-up and Repairs	4,500
UN Organization Services	-
Subtotal	53,550
Equipment and Capital Costs	
Vehicle leasing	-
TC/IT Equipment	6,250
Local Security Costs	4,500
Subtotal	10,750
TOTAL DIRECT SUPPORT COSTS	496,286

ANNEX II - Logical Framework Summary
Log Frame Summary of Armenia PRRO No. 10053.2 BR-007

Strategic Objective 1:

Protect livelihoods in emergencies (General Relief Food Distribution)

Results chain	Performance indicators	Risks, assumptions
<p>Outcome:</p> <p>1. Improved food consumption over assistance period for targeted households and communities.</p> <p>Output:</p> <p>1.1.1 Food distributed in sufficient quantity and quality to targeted women and men under secure conditions</p>	<p>Outcome indicators:</p> <ul style="list-style-type: none"> • Household food consumption score <p>Output indicators:</p> <ul style="list-style-type: none"> • Number of women and men receiving food by category and as % of planned figures • Quantity of food distributed as % of planned distribution 	<ul style="list-style-type: none"> • Government continues its poverty reduction efforts • No further economic or natural shocks occur • Relatively stable market prices; functioning markets in rural areas

Strategic Objective 3:

Restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations (Asset creation activity)

Results chain	Performance indicators	Risks, assumptions
<p>Outcome:</p> <p>3.1 Adequate food consumption over assistance period for targeted households and communities.</p> <p>Output:</p> <p>3.1 Food/Cash distributed in sufficient quantity and quality to targeted women and men under secure conditions</p> <p>3.2.1 Developed, built or restored livelihood assets by targeted communities and individuals</p> <p>3.2.2 Built/restored disaster mitigation assets by targeted community</p>	<p>Outcome indicators:</p> <ul style="list-style-type: none"> • Household food consumption score <p>Output indicators:</p> <ul style="list-style-type: none"> • Number of women and men receiving food/cash by category and as % of planned figures • Quantity of food/cash distributed as % of planned distribution • Risk reduction and disaster preparedness and mitigation assets are created/restored (area protection/reforestation, dams constructed). 	<ul style="list-style-type: none"> • Government continues its poverty reduction efforts • No further economic or natural shocks occur • Functioning banking system continues • Relatively stable market prices; functioning markets in rural areas • Community processes identify assets that are of critical value and importance to the community as a whole • No/little contribution from communities

Strategic Objective 5:

Strengthen the capacity of countries to reduce hunger, including through hand-over strategies and local purchase

Results chain	Performance indicators	Risks, assumptions
<p>Outcome:</p> <p>5.1 Progress made towards nationally owned hunger solution</p> <p>Output:</p> <p>5.1.1 Agreed hand-over strategies in place</p> <p>5.1.2 Capacity and awareness developed through WFP-organized actions/training</p>	<p>Outcome indicators:</p> <ul style="list-style-type: none">• Hand-over strategy developed and implemented. <p>Output indicators:</p> <ul style="list-style-type: none">• Number of hand-over strategies agreed to between WFP and national government.• Number of people trained in: needs assessment, targeting, food management Q&Q, market analysis, information management, local tendering, etc.	<ul style="list-style-type: none">• Government continues its poverty reduction efforts• Economic situation stabilizes• Functioning banking system continues• Relatively stable market prices; functioning markets in rural areas