

**Ethiopia Special Operation 200358
Construction and Management of the WFP Humanitarian Logistics Base at Djibouti Port**

B/R No.: 2

BUDGET REVISION OF SO FOR THE APPROVAL OF THE DED & COO

	Initials	In Date	Out Date	Reason For Delay
ORIGINATOR				
Country Office or Regional Bureau on behalf of Country Office
CLEARANCE				
Regional Director
Project Budget & Programming Officer, RMBP
Chief, RMBP
Chief, OSLT
Director, OSL
Director, RMB
Director, OST (ICT operations only)
APPROVAL				
Deputy Executive Director and COO

PROJECT	Previous Budget	Revision	New Budget
Total WFP cost (US\$)	US\$ 19,404,250	US\$ 6,994,426	US\$ 26,398,676

TYPE OF REVISION

- Additional DSC
 Additional ODOC
 Extension in time
 Change in project orientation
 Other

BACKGROUND:

Special Operation 200358 started in January 2011. Background to the Special Operation is referenced in attached project update.

NATURE OF REVISION:

Due to changes in the project implementation, this revision aims to extend the SO for another 18 months until 30 June 2015. Budget Revision No 2 is for an increase of US\$ 6,994,426 taking the total budget to US\$ 26,398,676.

JUSTIFICATION FOR THE REVISION:

The reasons for this budget revision are:

1. A need to extend the timeframe due to delays in implementing the original project plan,
2. A need to adjust the project's budget in line with actual construction expenditures, and
3. A need to adjust the project's budget to reflect increased staffing costs (due to the extended project timeframe) and to account for accrued savings (due to the 100% resourced status of the project).
4. Each of the above points is explained in more depth below and adjustments to the project's budget are summarized in the following table:

	Original Budget \$	Budget Revision \$	New Budget \$
Increase due to actual construction costs being higher than original budget plan + vehicle leasing costs and new CD&A budget lines	17,268,077	6,463,305	23,731,382
Increase due to additional staffing costs as a result of an extended project timeframe (offset against accrued savings) <i>New DSC budget line</i>	866,737	73,542	940,279
Total WFP Support Costs	18,134,814	6,536,846	24,671,661
Indirect Support Costs (ISC) 7%	1,269,437	457,579	1,727,016
Total WFP Costs	19,404,250	6,994,426	26,398,676

1. Extension in timeframe (end date extended to June 2015)

Special Operation 200358 was launched in January 2011 for the Construction and Management of the Djibouti Logistics Hub. The original budget was estimated at US\$19.4 million, with 19 months for construction to be completed.

The late confirmation of contributions meant that implementation of the project plan was delayed for approximately 14 months. This delay, plus the timeline provided by the winning contractor for the execution of the civil works (see #2 below), has created a need to extend the end date of the project until June 2015.

This in turn has created additional staffing costs (see #3 below).

2. Actual construction costs (budget increased by US\$ 5.8 million):

In October 2012, in close coordination with the Field Engineering Team in RMMI, the CO issued a bid for: (1) execution of all the civil works on the site; (2) installation of two prefabricated warehouses; and (3) construction of the office infrastructure.

The procurement process concluded in February 2013, and the winning bidder was awarded the contract for a total amount of US\$ 16.9 million.

The results of the bid on the civil works component impacted the overall cost of the construction by 45%. This increase is an average figure against all construction budget lines, as some costs, such as the purchase of a prefabricated warehouse structure have generated savings. This increment is largely attributed to a sharp increase in the demand for construction in Djibouti. In the last 12 months the Djiboutian Government has launched a number of construction projects including five new ports and the expansion of the current container terminal.

It should be noted that the bid excluded the silo structures themselves, but included the earth and civil works required for the construction of the silo foundations, as summarized in the plan explanation in the budget template.

US\$	Civil Works (w/out Silos) \$	Civil Works for Silos \$	Other Costs \$	Silos \$	Total \$
Original Budget	4,400,000	5,500,000	2,000,000	2,500,000	14,400,000
New Budget*	7,500,000	9,460,000	254,000	3,000,000	20,215,000
	= US\$16.9 million <i>Winning bid for civil works</i>				
Difference					5,815,000

The initial project budget had anticipated a return of investment between six and 12 years depending on the assumption for the levels of yearly throughput and the corresponding assumed savings. In view of the revised needs, the project's return of investment is now estimated between six and 13 years.

Therefore, this budget revision aims to align the budget costs to the contract signed for the construction activities

Construction began in May 2013 and is ongoing. The CO intends to tender for the silo component from November 2013. Due to the lack of in-house expertise in silo management, the CO will be looking to hire an external management firm to run the silo operation for one year while internal capacity is being built. A tender will be launched asking firms to quote on a "Build, Operate, and Transfer" basis.

3. DSC adjustments due to increased staffing costs offset against accrued savings (budget increased by US\$ 1.9 million)

The late confirmation of contributions and the resulting delay in project implementation has generated, from an accounting standpoint, DSC savings vis-à-vis the original budget. These savings, which are quantified at around US\$ 0.5 million, will be absorbed by the increased staffing costs due to the extension of the project's timeframe. To this effect, and for accounting purposes, some of the staff budget lines reflect a shorter timeframe.

Overall, staffing costs have increased by US\$1.9 million due to the extension of the project timeframe, after the above savings have been taken into account.

Please refer to attached supporting documents for more updates on the status of the project.

In light of the above, this budget revision for extension in time of 18 months until 30 June 2015, and a subsequent budget increase of US\$6,994,426, is recommended for approval by the Deputy Executive Director & COO.

DISTRIBUTION:

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Chief, RMBP, OSZR, OSZP	Regional Director	Director, PGG
Country Director	Programme Officer, RMBP	RB Programme Advisor
Registry	Programming Assistant, RMBP	RB Programme Assistant
<i>Director, OST (ICT operations <u>only</u>)</i>	Liaison Officer, OM @	