

**Country¹ & Project No.: Ethiopia PRRO 200365
Budget Revision No. 1**

PROJECT REVISION FOR THE APPROVAL OF:

➤ **Deputy Executive Director and Chief Operating Officer**

	<u>Initials</u>	<u>In Date</u>	<u>Out Date</u>	<u>Reason For Delay</u>
<u>ORIGINATOR</u>				
Country Office or Regional Bureau on behalf of Country Office
<u>CLEARANCE</u>				
Regional Director,
Project Budget and Programming Officer, RMBP
Chief, RMBP
Chief, ODLT (change in LTSH and/or External Transport)
Director and Deputy CFO, RMB
Director, ODX
<u>APPROVAL</u>				
Deputy Executive Director and COO

PROJECT

Start date: 01/04/2012 **End date:** 31/03/2015 **Extension/Reduction period:** N/A **New end date:** N/A

	Previous Budget (US\$)	Revision (US\$)	New Budget (US\$)
Food cost ²	173,204,411	0	173,204,411
External transport ³	34,769,449	0	34,769,449
LTSH ⁴	54,233,530	19,113,886	73,347,416
ODOC ⁵	5,757,349	0	5,757,349
DSC ⁶	16,408,143	0	16,408,143
ISC (7%) ⁷	19,906,102	1,337,972	21,244,074
Total WFP cost (US\$)	304,278,984	20,451,858	324,730,842

TYPE OF REVISION

- Additional commodity
 Additional DSC
 Additional ODOC
 Additional LTSH
 Additional external transport
 Other
 Re-orientation
 Extension or Reduction in time

DISTRIBUTION:

DED and COO	Regional Director	
Chief, ODLT	Chief, ODXP, RMBP, ODXR, ODXC	RB Programme Advisor
Country Director	Programme Officer, RMBP	RB Programme Assistant
OD Registry	Programming Assistant, RMBP	RB Chrono
ERD	RMB	Liaison Officer, ODN

² Food cost can comprise both commodities and cash/voucher transfers.

³ The first leg of transport for commodities: from the donor country to the recipient country port, or in cases of regional commodity purchases, from the place of purchase to the recipient country.

⁴ Landside, Transport, Storage and Handling - LTSH comprises the actions required to (a) care for and (b) physically deliver the commodities from the completion of external transport through to final distribution.

⁵ Other Direct Operational Costs - ODOC include deliverable goods (non-food items), services and training to beneficiaries and/or to implementing partners.

⁶ Direct Support Costs - DSC are those costs which are incurred directly in support of projects by a WFP Country Office.

⁷ Indirect Support Costs - ISC is a fixed rate resourced from all donor contributions, which is used to cover (non-project) corporate overhead costs, i.e. PSA.

NATURE OF THE INCREASE

1. This budget revision is to adjust the land transport, handling and storage (LTSH) budget for protracted relief and recovery operation (PRRO) 200365 “Food Assistance to Somali, Eritrean and Sudanese refugees”. The LTSH rate increases from US\$151.42/mt to US\$221.05/mt, with the total LTSH costs increasing by US\$19.1 million and indirect support costs (ISC) by US\$1.33 million.

JUSTIFICATION FOR BUDGET INCREASE

2. PRRO 200365 supports refugees in camps located along the remote borders of Ethiopia with Somalia, Eritrea, Sudan and South Sudan. The poor road infrastructure and insecurity affect logistics activities and the resulting costs of the operation.
3. While project commenced in April 2012, LTSH budget was prepared 4 months earlier in November 2011 - reflecting costs then at rate of US\$151.40/mt. In the 13 months elapsed to December 2012 logistics costs had changed reflecting the higher US\$221.05/mt. Of the US\$69.62/mt increase in LTSH, the largest part was against internal transport with US\$34.32/mt. A deficit incurred on the LTSH budget for tonnage received prior to this budget revision is accounted for at cost of US\$13.44/mt. Other significant increases in costs were against distribution costs, purchase of logistics-related non-food items and the upgrade of facilities at Dolo Ado at a combined US\$11.41/mt.
4. Transport tenders processed for delivery from main WFP storage hubs to refugee camps yielded higher rates averaging 42 percent increase in February 2012 and subsequent 10 percent increase in August 2012. It is deemed that Country Office obtained the best possible rates, considering the transport market conditions prevailing at the time. For the period April to December 2012, demand for transport services in Ethiopia continued to be driven by increased economic activity in the country. For overland transport, WFP is continually competing for capacity with the other Ethiopia Government and Statutory Agencies importing cereals (typically 680,000 mt/year) and fertilizer (typically 500,000 mt/year). In addition, major Ethiopia Government led infrastructure projects such as the Great Renaissance Dam were taking up overland and internal transport capacity. With large demand resulting from substantial investments in infrastructure (roads, dams, bridges and railways), Ethiopia is reported to have a severe cement shortage with annual production of 2.4 million mt / year meeting a limited 34 percent of annual demand. Impact of this have been imports of large volumes of bagged cement for immediate use as well as clinker and coal for the cement industry – all significantly competing for same transport capacity as WFP. Against this background, transport rates have been significantly affected by inflation rates with year-on-year inflation quoted at a high 29.84 percent in April 2012 when Refugee PRRO commenced.
5. Food for the Refugee PRRO is stored at the main hubs of Nazareth, Dire Dawa, Jijiga and Mekelle. Due to constantly evolving needs, food has had to be shifted between the main WFP storage hubs of Nazareth, Jijiga and Mekele so as to ensure that both overall food pipeline needs and specific food basket requirements are met. Shifting of food between WFP storage hubs involves some distances in excess of 800 Kilometers and these costs have had to be included in the revised LTSH budget which will be adjusted downwards as soon as the ongoing road construction will be completed. In order to reduce need to shift food, a Customs Bonded WFP warehouse was established at central location of Nazareth in August 2012 for unsold Forward Purchase Facility food intended for the Refugee PRRO as well as other WFP projects. A second Customs Bonded WFP warehouse was set up at Dire Dawa in eastern Ethiopia in December 2012. In 2013, a third Customs Bonded warehouse is planned at Kombolcha in northern Ethiopia to cater for WFP operations in that part of the country.

6. With the Ethiopia Government's Agency for Refugee and Returnee Affairs as WFP's implementing partner, distributions costs increased by US\$4.33/mt. Costs related to purchase of non-food items required at WFP main storage hubs, transshipment locations and extended delivery points increased by US\$3.64/mt. With heightened security threats in Dollo Ado refugee camp at the border with Somalia and in order to comply with United Nations Department of Safety and Security recommendations, funds have been earmarked in the LTSH budget for security upgrades of the logistics facilities.

7. The new LTSH rate of US\$221.05/mt will enable the country office to fully meet its commitments to support the refugee operation. Efforts will continue to further rationalize the logistics network, as well as to monitor closely the transport market. By reinforcing the coordination with the Ethiopian Maritime affairs and Road authorities the current transport capacity could be optimized and its use rationalized, therefore the LTSH rate will be revised downwards as soon as the domestic transport demand stabilizes within 2013. Before the end-date of this PRRO in March 2015, the operation will benefit from major transport infrastructure upgrades underway within Ethiopia and at Djibouti. These are expected to result in lower overland transport costs in the future and WFP will revise the LTSH budget when changes in conditions result in lower costs.