WFP AFGHANISTAN
SPECIAL OPERATION – 10514.0

COUNTRY	Afghanistan
TYPE OF PROJECT	Interagency Common Air Service
PROJECT TITLE	United Nations Humanitarian Air Service (UNHAS)
TOTAL COST Inc.7% ISC (US$)	16,829,331
PROJECT LIFESPAN	12 Months (renewable)

Abstract of Project

WFP/UNHAS, under the stewardship of the UNHAS Board Chaired by WFP with administrative and logistics support provided by WFP, is established as a UN interagency common service to provide safe, efficient, responsive and cost effective passenger and cargo air transport services for humanitarian and development agencies and their implementing NGO partners involved in the rehabilitation and reconstruction of Afghanistan. Between 2003 and 2005, 180,000 passengers utilized WFP/UNHAS services.

The general consensus of WFP/UNHAS Board after consultation with the donor community and international clients is that the service is needed and should continue due to the lack of safe and reliable ICAO compliant operators. At the consultation with donors held on 01 Nov 05 in Kabul, the local representatives of the donor community suggested that the funding strategy could move from donor subsidized to full cost recovery. WFP/UNHAS has taken the following steps to significantly reduce the subsidy required to sustain the service by:

- Increasing the reimbursable cost/seat;
- Cessation of low-yield routes;
- Redesign of route structure and schedule to facilitate increased sector passenger yield through efficient “hubbing”.
- Reducing fuel consumption and increasing payload.
- Installation of a computerized passenger reservation and revenue accounting (PRA) system to reduce workload and overtime cost.

The previous SO (SO 10163) was highly flexible and customer oriented. It allowed for additional aircraft to be put on line or the ad-hoc chartering of aircraft to cover passenger services in the event that aircraft were unserviceable or if there were additional passengers on any given route. This meant that a lot of costly spare capacity had to be built into the budget. If this concept of business is to continue and including the 20% rise in the cost of fuel and the rise in local staff salaries, the budget needed would be approximately US$ 21 million.

With the progressive implementation of the aforementioned cost-reduction measures, the proposed budget for SO 10514.0 is US$ 16,829,331. Expenditure is expected to be recovered through miscellaneous income in the form of ticket sales and reimbursement from provision of services to UNAMA.

In view that the short/medium term passenger load is unpredictable due to the recent increase in fares, the uncertainty about donor funding of international development programmes for Afghanistan and the overall UN presence, it is further proposed that whatever funds remaining as at 31 Mar 06 in SO 10163 (estimated at US$ 2.1 million) be transferred to SO 10514 and be used as operating capital for SO 10514. Current revenue derived from ticket sales show a monthly revenue/expenditure deficit of between US$ 100,000 and US$ 150,000 per month. Should this trend in deficit continue, the operating capital will be sufficient to cover 12 months of operation.

Project Background

1. UNOCHA handed over the responsibility for a humanitarian air service for Afghanistan to WFP in Dec 2001. UNHAS was inaugurated in Jan 2002 as the common UN interagency air transport service provider. WFP/UNHAS expanded its service to Dubai in Aug 02 as a full cost-recovery project. In Nov 02, UNHAS implemented a partial cost-recovery policy to reduce the subsidy required from the donor community. Over the past 3 years, UNHAS has flown more than 15,500 hours, transported more than 180,000 passengers and 1,200 tons of cargo to and from 9 major domestic destinations and 3 international destinations in neighboring countries.

2. SO 10163 was launched in 2001 at the onset of the Afghanistan crisis and included funding for UNHAS, UNJLC and ICT services. For WFP/UNHAS, the budget underwent 5 revisions taking the budget from the original US$ 9,325,744 to the Revision 5 which placed the final budget at US$43,128,614. Cost recovery started in Nov 02.

3. Considering there is no longer any involvement of UNJLC and ICT, it is recommended that SO 10163 be closed and a new SO be established.

Project Justification

4. To date, there are no domestic operators that operate in compliance with ICAO Standard and Recommended Practices (SARPs) that regulate the safety of international civil aviation in Afghanistan. In addition, the overland transport infrastructure is in poor condition and security of overland travel is precarious. Travel by road is generally unsafe due to road conditions and the probability of banditry/terrorist attacks. Furthermore, air travel is a fraction of the time it takes by road.

5. Since 2003, several international airlines have shown interest in operating into Kabul but with the exception of Pakistan International Airline (PIA) that has begun operating an unreliable service with several cancellations between Kabul and Islamabad 3 times a week, none have appeared. The reasons cited are that the airport terminal and passenger/baggage security screening is well below acceptable international standards and based on the reported high incidence of air-misses, that airspace management is non-existent. Furthermore, Kabul airport is soon to undergo reconstruction to modernize the facilities beginning early 2006 and it is unlikely that the work will be completed before the end of 2006.

6. ARIANA and KAMAIR run domestic services to some of the destinations serviced by WFP/UNHAS but neither of these airlines are in compliance with ICAO SARPs and therefore unacceptable for travel by UN and many diplomatic and international staff. There is no tangible evidence of these two airlines improving their compliance to international standards in the short term primarily because there is no functional national civil aviation authority to establish and enforce safety and operating standards of these two Afghanistan registered operators.

7. ECHO is currently funding Airserv who operates two Beech 200's in Afghanistan, stationed in Kabul, one of which belongs to Pactec. It does not have the capacity to cater for the high number of passengers flying with UNHAS. Pactec and Airserv personnel also fly with UNHAS. Airserv does not comply with UN Standards.

8. UNOPS has 2 x Beech B-200 operating for their projects.

9. Considering, the absence of air carriers that operate in compliance with ICAO SARPs, and the insecurity of overland travel by road, the only safe and reliable form of communication is by air and since there are no ICAO compliant air carriers (except PIA) providing the level of service provided by WFP/UNHAS, the need for UNHAS still exists.

10. Apart from WFP/UNHAS being an ICAO compliant service, it has demonstrated that it is capable of responding to the emergency needs of the humanitarian community on several separate occasions; the timely evacuation of international humanitarian aid workers from Jalalabad and Herat and of MEDEVAC cases. This raises the confidence level of the international humanitarian aid community to deploy and undertake their tasks.

11. The shift to a Full Cost Recovery mechanism was deemed necessary as donor community showed little interest in the SO while the services provided by the project where still highly demanded by the humanitarian community.

Project Objectives

12. The project objectives are to:

    a. Provide a safe, responsive, efficient and cost-effective air transport service for the humanitarian and development community for the rehabilitation and reconstruction of Afghanistan;

    b. Provide the capability for medical and emergency security evacuation when required; and

    c. Assist the national authority in conjunction with other international authorities in Search and Rescue (SAR) operations when called upon.

13. The project also seeks to enhance currently on-going activities designed to improve interoperability between DPKO aviation and WFP aviation in areas of sharing of facilities, equipment, services, commodities and safety to reduce infrastructure cost and increase efficiency.

Budget and Service Cost/Pricing Strategy

14. The budget that was presented at the consultation with donors held in Kabul on 01 Nov 05 to present the 2006 budget, provided for exigencies such as increase in charter rates, additional block hours required to accommodate air traffic delays, adjust aircraft types to routes and system improvements. This methodology provides greater guarantees for financial viability but adopting this strategy for full cost-recovery (FRC) results in perceived high fares.

15. The revised FCR budget for this SO is a result of a different approach to costing and calculating fares based on mean seat pricing average over a range of aircraft that can be used to service the route. This allows a number of options for aircraft to be used and with diligent dispatch management, the opportunity of maximizing aircraft payload will reduce operating cost.

Project Implementation

16. The institution of a FCR system means that the cost of domestic services which mainly serve the humanitarian and development agencies and their implementing NGO partners (Primary User Category - PUC) has increased between 100-300%. This increase is being borne by the users, some of whom are poorly funded NGOs. The overall impact of this increase is that there will be less travel by those organizations that cannot afford the increased cost.

17. The staffing structure is the same as the previous SO (10163) except for a reduction in Islamabad and an increase in Kabul as a result of the transfer of finance and operations functions from Islamabad to Kabul. The organization will be restructured to apply functional grouping so as to strengthen management and supervision. The operation will be staffed by 7 international Air Transport/Movement Officers staff (Fixed-Term and Consultant), 3 National Air Transport/Movement Officers and 129 national GS/Contract staff. The Chief Air Transport Officer (CATO) will be the Project Manager reporting to the UNHAS Board chaired by the Country Director, WFP Afghanistan.

18. A new route structure and schedule will be implemented with effect from 01 April 2006. The new structure and schedule will improve connections between the international and domestic UNHAS services to reduce lay-over by passengers connecting between the two.

19. The fleet composition and number of aircraft will be adjusted to meet the demand as will the frequency of the flights on each of the sectors. Passengers will continue to be those from organizations registered as members of the user group and approved by the UNHAS Board. Reservations are on a first come, first served basis as current

practiced. Fares will be reviewed on a quarterly basis and any changes will be implemented at the end of the following month.

20. Other measures that will be introduced are an Automated Reservation/Revenue Accounting (PRA) system to reduce staff effort and improve dispatch decision-making, and an enhanced financial management reporting format at the "business" level to closely monitor income/expenditure.

21. UNHAS is aggressively enhancing interoperability between WFP Aviation and DPKO as follows:

    a. Utilizing the UNAMA terminal for passenger check-in which increases security for UNHAS passengers and reduces any foreseeable space rental charges by the Kabul airport authorities;

    b. Utilizing UNAMA flight following system which eliminates the necessity to establish a dedicated one thereby reducing cost;

    c. Sharing the cost of apron security for UNHAS aircraft with UNAMA.

    d. Utilizing UNAMA aircraft where necessary to substitute unserviceable UNHAS aircraft so as to reduce cancellation of services.

    e. Cost-free loan of UNAMA ground support equipment whenever needed;

Project Cost and Benefits

22. The estimated FCR budget for one year (Figure 1 below) is US$ 15,728,347, or an estimated monthly operating budget of US$ 1,309,196.

STAFF COST	
International Staff (1 x P5)	187,740
International Staff (2 x P4)	312,120
International Staff (4 x P3)	511,920
National Professional Officers	85,929
National Staff	1,159,599
Staff Duty Travel	84,000
TOTAL STAFF COST	**2,341,308**

NON-STAFF COST	
Aircraft Contracts	8,124,779
Aircraft Fuel	3,526,760
Logistics Support (Recurring)	577,500
Logistics Support (Non-Recurring)	270,000
Operational Support	888,000
TOTAL NON-STAFF COST	**13,387,039**

BUDGET	**15,728,347**
ISC (7%)	**1,100,984**
TOTAL BUDGET (Incl ISC)	**16,829,331**

Figure 1 – Budget for UNHAS Afghanistan SO 10514

23. The donor community at country level has stated that it will provide the NGO's and agencies with the funding for their air transportation, further solicitation for funds from them at country level is not envisaged to result in any change in posture. They may

reconsider a change if presented with the decision by the UNHAS Board to close down the operation due to lack of funds when the situation arises. The ticket fares will be reduced to lessening transportation costs for the humanitarian community should supplementary funds be donated to the project.

Financial Risk Management

24. The management of the financial risk will be through the monitoring of income over expenditure performed monthly in order to establish adjustment of fares in real time.

25. The biggest risks are the potential volatility in passenger traffic, disruption of operations due to either weather or security concerns, leading to fluctuations in income and expenses.

Aviation Safety

26. Aviation safety is the responsibility of the CATO with technical assistance provided by the UNAMA safety officer under the UNHAS/UNAMA interoperability MOU in the absence of the Regional Aviation Safety Officer.

Performance Indicators

27. Being a full cost recovery project, the performance indicators will be similar to that of a regional airline in terms of:

    a. Passenger load as this is an indicator of Customers' satisfaction

    b. Ability to operate within budget and effective management of cost control;

    c. Capability to generate additional income where possible;

    d. Safety incident reporting – percentage of corrective action taken/incidents reported.

    e. Despatch and service reliability.

Project Duration and Exit Strategy

28. The duration of the project is 12 months (01 April 06 – 31 March 07) with the exit strategy being as follows:

    a. International services will cease within 30 days of:

        (1) A viable option for international travel to destinations served by WFP/UNHAS is available; and/or

        (2) WFP/UNHAS is forced to shut down its international services; and/or

        (3) The client base no longer needs the service.

    b. Domestic services will cease within 30 days of:

        (1) A viable option for domestic travel to destinations served by WFP/UNHAS is available; and/or

        (2) WFP/UNHAS is forced to shut down its domestic services; and/or

        (3) Domestic services are no longer financially viable; and/or

        (4) The client base no longer needs the service.

    c. The operation becomes financially unsustainable.

Monitoring and Reporting

29. WFP/UNHAS will produce a financial performance report to HQ and the UNHAS Board at the end of each month which will include but is not limited to:

    a. A monthly balance sheet for the financial status of the operation;

    b. The number of passengers and cargo moved;

    c. Safety related incidents/accidents; and

    d. Constraints (if any) on the future of the service.

Recommendations

30. It is recommended that WFP/UNHAS continue to operate for a period of 12 months with the possibility of continued extensions subject to the conditions outlined in the exit strategy in paragraph 28 above.

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James T. Morris Date
Executive Director

Not Approved.

Approved.

Approved Subject to:

Project Type:	**SO**
Recipient Country:	**Afghanistan**
Project Number:	**10514**
Duration (months):	**12.0**
Start Date:	**01 April 2006**
End Date:	**31 March 2007**

DIRECT OPERATIONAL COSTS (DOC)	**$13,387,039**
DIRECT SUPPORT COSTS (DSC)	**$2,341,308**
TOTAL WFP DIRECT COSTS	**$15,728,347**
INDIRECT SUPPORT COSTS (ISC) 7%	**$1,100,984**
TOTAL WFP COSTS	**$16,829,331**

Note: This Project is financed on a Full Cost Recovery Basis upon initiation with possibility of supplement donor funding during the life of the project.

1/ This format should also be used for Project Budget Plan Revisions.
2/ Please adapt your planning according to the Project Document (duration of the project).
3/ This worksheet includes total amounts for all years.
not Project Costs per se.

Staff and Staff-Related Costs		Year *1*	Year *2*	Year *3*	Year *4*
551010	Temporary Assistance	-	-	-	-
551020	UNVs	-	-	-	-
551030	Non-WFP Staff Training	20,000	-	-	-
551040	Travel	20,000	-	-	-
	Subtotal	**40,000**	**-**	**-**	**-**

Recurring Expenses		Year *1*	Year *2*	Year *3*	Year *4*
554010	Rental of Facility	240,000	-	-	-
554020	Utilities General	38,400	-	-	-
554030	Office Supplies	30,000	-	-	-
554040	Communications and IT Services	60,000	-	-	-
554050	Insurance	-	-	-	-
554060	Equipment Repair and Maintenance	20,400	-	-	-
554070	Vehicle Maintenance and Running Costs	18,000	-	-	-
554080	Contracted Services	32,800	-	-	-
554090	Other Office Expenses	17,900	-	-	-
555080	Other Tools, Material and Equipment (De-icing Fluid)	80,000			
558100 to 290	Aircraft Fixed and Variable Operating Cost	12,539,539			
	Subtotal	**13,077,039**	**-**	**-**	**-**

Equipment & Capital Costs		Year *1*	Year *2*	Year *3*	Year *4*
555010	Agricultural Tools and Equipment	N/A	-	-	-
555020	Kitchen & Canteen Material and Equipment	N/A	-	-	-
555030	Health Related Material and Equipment	N/A	-	-	-
555040	School Related Material and Equipment	N/A	-	-	-
555050	Building Material	30,000	-	-	-
555060	Vehicles	40,000	-	-	-
555070	TC/IT Equipment	30,000	-	-	-
555080	Other Tools, Material and Equipment (Bulk Fuel Installation/Ramp Equip)	170,000	-	-	-
	Subtotal	**270,000**	**-**	**-**	**-**

TOTAL OTHER DIRECT OPERATIONAL COSTS	**13,387,039**	**-**	**-**	**-**

1/ Planned costs should be included for ODOC items that are relevant to the SO.

Staff and Staff-Related Costs		Year *1*	Year *2*	Year *3*	Year *4*
611111 to 225	International Professional Staff	727,740	-	-	-
611231 to 234	International GS Staff	-	-	-	-
612100	National Professional Officers	85,929	-	-	-
612200	National GS/Contract Staff	1,159,599	-	-	-
613100	Temporary Assistance	-	-	-	-
613200	Overtime (in USD only)	-	-	-	-
613300	Incentives	-	-	-	-
621000	International Consultants	284,040	-	-	-
621100	National Consultants	-	-	-	-
631000	Staff Duty Travel	84,000	-	-	-
641000	Staff Training and Development	-	-	-	-
	Subtotal	**2,341,308**	**-**	**-**	**-**

TOTAL DIRECT SUPPORT COSTS	**2,341,308**	**-**	**-**	**-**

I. Plan Overview

Explain the project budget plan within the context of the country and regional situations in general and in relation to the budgets of other WFP projects in the country and region.

The funding of this project is on a full cost recovery basis and independent of the WFP Country PRRO or any other project budget. Donor contributions are still expects to enable the fares charged to the user community to be reduced making it more affordable for the lesser funded national NGOs, and to the humanitarian and development community as a whole.

II. Direct Operational Costs

1. Explain commodity requirements in terms of rations multiplied by the number of beneficiaries multiplied by project duration.

Not applicable.

2. Make a table (example below) to present gross and net commodity requirements if relevant to demonstrate where you have any resource balance of commodities.

Not applicable.

Commodity	Gross Requirements in mt	Resource Balance in mt	Net Requirements in mt

3. List gross and net funding requirements if relevant for any cost categories within DOC where you have any resource balance of funds.

No balance of funds in any cost category. Funds available to carry forward from previous year/SO is income accumulated from sales of tickets and not assigned to any specfic budget item or centre.

4. State where you planned your budget using standard costs. If you used other costs, state where and explain the reasons and the origin of the planned costs.

Standard costs used only for international and national staff.

5. Explain any government contribution and/or IP cost sharing and how and where the budget totals were thus decreased within DOC.

Not applicable.

6. Justify specific quantities and costs as required, particularly the number and cost of staff, vehicles and computer equipment. Where appropriate, justify costs by explaining expected output. State total number of vehicles currently in CO resourced as ODOC.

All cost are in support of aircraft operations and broken down as follows: Aircraft - 50.7%, Fuel (Jet A-1) - 22%, Personnel - 16.5%, Logistics Support - 5.2%, Other fixed and variable cost - 5.5%. Vehicles are organic to the project.

7. Travel expenditures should be clearly explained and justified: the number, purpose and destinations of all missions should be detailed.

All travel expenditure is incurred for official purposes and travel provided under contractual employment obligation to personnel.

8. Highlight areas of DOC where you have kept costs low by planning to use resources already on hand in the country or region.

Not applicable.

9. If your ODOC are not equally distributed over the life of the project (for example, if your worksheets show that you require your NFIs or funds all at once at the beginning of the project), explain why.

Requested resources from donors of at least US$2.7 million if received at the beginning of project to be used as operating capital

10. Explain if you are expecting any income from cost recovery (such air passenger services within a SO).

The operation is expected to be financed totally from income generated through the fare contributions provided by the user community for the use of the service.

III. Direct Support Costs

1. List gross and net funding requirements if relevant in DSC where you have any resource balance of funds.

Not applicable.

2. Explain any cost sharing or Trust Funds Projects (like JPO posts) that lowered budget totals for DSC.

No cost sharing in DSC.

3. Justify specific quantities and costs as required, particularly the number and cost of staff, vehicles and computer equipment. Where appropriate, justify costs by explaining expected output. State total number of vehicles currently at CO resourced as DSC.

Not applicable.

4. Explain the need for any security related costs.

Aviation security and security personnel cost built into the budget.

5. Travel expenditures should be clearly explained and justified: the number, purpose, destinations and costs of all missions should be detailed (how much money has been planned for how many rep-led missions, for what purpose, etc.)

See Para II/7 above.

6. Highlight areas of DSC where you have kept costs low by planning to use resources already on hand in the country or region.

All resources currently in use will continued to be utilized with minimal new acquisitions for replacement of equipment that are outdated and/or beyond economical repair.

7. Explain project activities related to advocacy and their estimated costs.

Providing air transport services for humanitarian and development community operating in Afghanistan.

IV. Overall Budget Justification

Justify the overall budget totals and the relative cost category totals; explain why your budget is appropriate.

Budget covers all cost relevent to the operation of 5 aircraft for 4157 flying hours. (See Para II/6 for budget breakdown.)