



World Food Programme

BUDGET REVISION OF SO FOR APPROVAL BY THE CHIEF OF STAFF

5) To:	Division	Room	Approval and Date
Mr. Jim Harvey Chief of Staff	OED	6G36	
4) Through:	Division	Room	Signature and Date
Ms. Elisabeth Rasmusson Assistant Executive Director	PG	6G72	
3) Through:	Division	Room	Signature and Date
Mr. Manoj Juneja Assistant Executive Director	RM	6G00	
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**Afghanistan SO 200635
BR No. 001**

PROJECT	Previous Budget	Revision	New Budget
Total WFP cost (US\$)	US\$ 22,731,911	US\$ (8,622,736)	US\$ 14,109,175

TYPE OF REVISION

Additional DSC orientation
 Additional CD&A
 Extension in time
 Change in project orientation
 other

NATURE OF REVISION:

1. This budget revision for the Special Operation: *Capacity Development in Support of the Strategic Grain Reserve in Afghanistan* seeks for an extension in time till 31 December 2018 and a decrease in budget from US\$22,731,911 initially projected to US\$14,109,175 (a decrease of US\$8,622,736). Furthermore this BR will accommodate the changed project orientation of the Special Operation from construction of infrastructure to knowledge exchange.



World Food Programme

JUSTIFICATION FOR THE REVISION:

2. In the original Special Operation the following statement was used to describe the key objectives associated with the project:

“The Government of the Islamic Republic of Afghanistan (GoIRA) is cognizant of the country’s humanitarian and development challenges including natural and manmade disasters inducing food insecurity. Aware of the efficiency and effectiveness of food reserves, and informed by FAO studies, the Government has devised a Strategic Grain Reserves (SGR) programme whose objectives are to:

- *Provide emergency food assistance to transitory food insecure households;*
 - *Support communities and farmers with storage facilities;*
 - *Assist producers to secure fair prices at harvest times; and*
 - *Contribute to domestic food price stabilization.*
3. Although the above project objectives have not changed, in early 2015 the focus on infrastructure i.e. storage, and warehouse capacity was reviewed. The approach of the Special Operation was retargeted in agreement with Government to focus on strategic grain mechanisms and budgets (capital to buy wheat grains and cover attendant running costs).
4. In March 2015 a ‘Draft National Wheat Policy’ was produced by the Ministry of Agriculture Livestock and Irrigation (MAIL) in collaboration with WFP and FAO which described the actions and activities needed to coordinate a collective strategic approach to cereal production and processing in Afghanistan. As a result, changes in this Special Operation implementation approach were developed to include aspects of the government’s new wheat policy, such as inclusion of procurement from local sources and support to national small farmers; dissemination of quality control standards. Changes in this approach are in line with the budget revision of the Protracted Relief and Recovery Operation (PRRO) carried out in July 2015 and which included the purchase of approximately 33,000 MT of locally produced fortified wheat flour of which 50% of the wheat requirement was supplied from Afghan farmers.
5. The completed Strategic Grain Reserve (SGR) implementation project document was submitted to GoIRA in December 2015. Notwithstanding the findings and awaited approval of this document by GoIRA, it became evident that Government resourcing efforts are a critical success factor.
6. The Special Operation project budget will be revised downwards to accommodate changed priorities, focusing more on ‘knowledge exchange’ to support the SGR operational activities rather than the construction of warehouses and storage infrastructure¹. This will mean that the majority of the original budget under the existing Special Operation will no longer be required, bearing in mind that past expenditure for SGR activities in Afghanistan in the period September 2014 to September 2016 include the US \$7,730,000 under the PRRO 200063 for the erection of 25,000 tons of bagged storage facilities in Kabul, and thus is no longer required under this revised Special Operation budget.
7. With this refocused approach, it is anticipated that US \$3,900,000 will be sufficient to provide ongoing support and complete the activities in a revised context by the end of 2018.

Summary of the findings and recommendations of the re-assessment

8. A number of government owned silo facilities and flat stores are operational with a combined capacity of approximately 235,000 tons. No store is currently operating to its full capacity. Newly constructed assets need to be utilized to their full potential.
9. Silo facilities would require a supporting capital injection to carry out a much-needed programme of maintenance and refurbishment to bring them up to adequate levels of operational capability.
10. Although the basic facilities and operational infrastructure are in place to run a SGR, at the moment there is no viable strategy, including a funding option, to comprehensively sustain a strategic stock position.

¹ KPIs for this new approach can be found in annex 2.



World Food Programme

Challenges the Special Operation has encountered

11. If financial resources to fund a sustainable GoIRA SGR purchase strategy remain uncertain, continued investment in large scale storage projects without the associated utilization may not serve its predefined purpose. Consequently the delivery of revised targets could be achieved with a more modest Special Operation budget allocation².
12. To achieve the revised targets, there is a need to establish a governing structure for the SGR comprised of the following bodies:
 - The Afghanistan Grain Board (AGB) obligated to ensure that the stated aim of the Afghanistan Government to make functional SGR, is fully implemented.
 - The Strategic Grain Reserve Agency (SGRA) which will carry out on behalf of the AGB all activities and actions necessary to fulfil the revised targets.
13. An important consideration to keep in mind is the availability of working capital required to fund the purchases of grain by the SGRA. Indeed, as the SGR is owned by the Government, it should be the Government's responsibility to finance the cost of establishing and maintaining the reserve. The functional capability of the stock and SGRA will be drawn from a start-up capital of 170,000 MT of wheat grain that the Indian Government has bilaterally committed to Afghanistan, and whose transportation is under negotiation. It is anticipated that there will be occasions where sales will be made from the reserve to secure the working capital to fund the strategic stock beyond aid contributions.

New focus, implementation strategy, and expected outcomes of the Special Operation project.

14. In redefining the budget for the Special Operation, activities which can be considered as relevant and continue to deliver to previously prescribed objectives include:
 - Support in local and regional procurement process including market intelligence.
 - Transfer of knowledge in handling e-tendering processes
 - Support for facilitating the collation of milling wheat statistics and fortification of flour where P4P and VAM units will play key role in that partnership.
 - Support in supply chain logistics on cost analysis for the best corridor options.
 - Provide a complementary financial support in the rehabilitation of the warehouses particularly those positioned in the vicinity of the areas prone to natural disasters to increase the emergency and disaster response capacity of both the Government and the humanitarian community operating in the country. This is expected to be achieved through a coordinated effort with the regional bureau EPR team where an approach to establish a series of Humanitarian Response Facilities in Afghanistan will be explored and eventually developed.

The implementation of the project will be led by one national engineer for the remaining duration of the project. The project implementation will be supported by an international policy specialist who will be imbedded with the Government structures to ensure delivery of Government part of the project for a period of 1.5 months.

15. As part of the refocused Special Operation, WFP will include associated resource related to the provision of plastic pallets, stitching machines, fumigation, warehouse management training, capacity building and the cost of an SGR Expert Consultant in the budget.

Recommendation

16. In light of the above, a budget decrease of US \$8,622,736 is recommended for approval by the Chief of Staff, with the budget provided.

² Further risks are outlined in Annex A

ANNEX A: Risk Matrix

Risk	Type	Initial Risk Category	Approach	Final Risk Category
Deterioration in overall security across the country, breakdown in government structures and inability of the UN to work at the sites	Contextual	High	Outsourcing of all contracts including management; Remote management; Phased and modular implementation; Implement all projects to the point where they can commence when conditions improve; Work closely with Government to provide acceptable level of security at project sites; Ensure all contracts have provisions to mitigate risk of delays due to insecurity	Medium
Lack of funding for the project	Financial	High	The CO has already 1.5million available under Special Operation project to start with and will engage with interested donors to provide the remaining balance. From the outset it should be recognized, and accepted by government, that the reserve is likely to be a continuing cost burden, and should not be expected to generate sufficient funds from the sales of grains to cover either its replenishment or its full operating costs.	High
Delay in complementary activities such as setting up of SGRA, AGB and rehabilitation of warehouses.	Programmatic	Medium	The charter for the Strategic Grain Reserve Agency has been cleared by the cabinet. The AGB and the SGRA will have many other relevant matters to consider but a truly holistic approach needs to be implemented if a long term solution is to be found that meets government aspirations.	Medium

ANNEX B: Logical framework

LOGICAL FRAME WORK Special Operation for Strategic Grain Reserve (2014- 2018)		
Cross Cutting Results and Indicators		
Results	Indicators	Targets
Partnership: Food assistance interventions coordinated and partnerships developed.	Partnership: Proportion of project activities implemented with the engagement of complementary Partners	Target: 80% project implementation jointly done with Partners.
Strategic Objective 1: Save lives and Protect livelihoods in emergencies		
Results Hierarchy	Performance indicators	Assumptions
Outcome 1.1: National institutions, regional bodies and the humanitarian community are able to prepare for, assess and respond to emergencies	1.1. Emergency preparedness and response Governmental institutions obtain funds/initial revolving stock for SGR (Y/N)	<ul style="list-style-type: none"> - Socio economic situation does not worsen - Availability and sufficient capacity of Partners.
Output 1.1: Emergency management capacity created and/or supported	Output 1.1 : - Number of technical assistance activities provided, by type (at least 5 types of technical assistance including Procurement process, Selling of stocks, management of food stocks including stock rotation processes etc.) - Number of people trained, desegregated by sex and type of training (over 100 people trained including high ranked SGR managers).	
Outcome 3.1: Increased marketing opportunities for producers and traders of agricultural products and food at the, national and local level.	3.1. Food purchased from, national and local Suppliers as % of food distributed by WFP in country (target over 70%). 3.2. Food purchased from aggregation systems in which smallholders are participating, as % of regional, international and local purchase (target 40%).	
Output 3.1 : Increased WFP food purchased from national local markets and small farmers.	3.1.1. Quantity of food purchased locally through local purchases (in Mtn) – Target over 60,000 Mtn per year 3.1.2. Quantity of food purchased locally from small holder aggregation system (in Mtn) – Target over 24,000 Mtn per year	