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**BUDGET REVISION OF SO FOR APPROVAL
BY THE DEPUTY EXECUTIVE DIRECTOR**

5) To:	Division	Room	Approval and Date
Mr. Amir Abdulla Deputy Executive Director	OED	6G60	
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	
2) Through:	Division	Room	Signature and Date
Ms. Valerie Guarnieri Assistant Executive Director	OS	6G62	
1) From:			Signature and Date
Mr. Muhannad Hadi Regional Director, RBC	RBC		

Yemen SO 200841 - BR No.6
***Logistics & Emergency Telecommunications Augmentation and Coordination
to Support Humanitarian Operations in Yemen***

PROJECT	Previous Budget	Revision	New Budget
CD&A	US\$ 67 040 766	US\$ 13 668 350	US\$ 80 709 116
DSC	US\$ 4 650 861	US\$ 337 200	US\$ 4 988 061
ISC	US\$ 4 915 378	US\$ 910 361	US\$ 5 825 739
Total WFP cost (US\$)	US\$ 76 607 005	US\$ 14 915 911	US\$ 91 522 916

TYPE OF REVISION

Additional DSC Additional CD&A Extension in time Other

NATURE OF REVISION:

1. This Budget Revision (BR) 6 of *Logistics & Emergency Telecommunications Augmentation and Coordination to Support Humanitarian Operations in Yemen* Special Operation will allow the Logistics Cluster to cater for the establishment of a revolving fuel facility to cover the fuel needs of the humanitarian community in northern Yemen from 01 March to 31 December 2018.
2. This BR 6 results in a total increase of USD 14,915,911 bringing the budget to a total of USD 91,522,916. BR 5 was a technical adjustment for ISC. BR4 was approved to extend the project duration to 31 December 2018 for both Logistics and Emergency Telecommunication Clusters. The original duration of the project was from 25 April to 31 December 2015, and BR1 extended it to 31 December 2016, followed by BR2, which extended the project period to 31 December 2017. BR 3 only catered for the increased due the cholera outbreak, with no extension in time.



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Project Background

3. On 6 November 2017, a blockade was imposed to all entry points by sea and air to Yemen, impacting significantly the humanitarian and commercial sectors, as the country relies heavily on imports. The blockade was partially lifted in the following weeks, starting with access points in southern Yemen and then extended to northern Yemen by the end of November.
4. However, at the time of the revision no commercial container vessel has been granted clearance since the blockade to access Hodeidah port, and commercial fuel tankers were not allowed access either up until 21 December 2017, when two fuel vessels transporting gas oil and steam coal berthed in Hodeidah and Saleef ports respectively. The prolonged disruption of fuel imports has severely constrained and depleted the in-country stocks: most petrol stations ran out of fuel, with massive queues developing around those petrol stations with remaining stocks.
5. Meanwhile, ports in southern Yemen are trying to compensate the lack of access to Hodeidah, and they have allowed a small release of fuel on the market. However, their capacity cannot increase neither in the short nor the long term; in addition, fuel prices increased because of the reduced offer, and as the retailers' keep on depleting, prices are likely to increase even further.
6. Against this backdrop, on 29 November 2017, there was an intensification of the conflict across Yemen. The security situation deteriorated dramatically in Sana'a, affecting the humanitarian community's access to vulnerable populations, as well as the community's ability to reach basic and critical services. Street fighting and armed clashes between the Houthi's and the General People's Congress (GPC) heavily increased, ending with a victory of the former. Although the situation in Sana'a somewhat stabilized after this confrontation, the security situation remains extremely volatile, resulting in limited presence of international humanitarian staff which may cause additional disruptions to an already precarious fuel supply chain. Due to this situation, the presence of international humanitarian staff is also being kept at a minimum level.
7. Despite the recent reopening of Hodeidah to fuel tankers, and the announcement on 20 December 2017 by the Saudi-led coalition to keep Hodeidah port open for a month for both humanitarian and commercial cargo, including fuel, there is no insight on how long the port will remain open effectively. Further escalation of the conflict in Hodeidah governorate would pose a serious threat to the functioning of Hodeidah port. Therefore, fuel restrictions might easily resume in the short term. Lack of fuel may bring life to a standstill and overall worsen the humanitarian situation in the country, affecting humanitarian activities as well, due to sharp increases in prices and a lack of fuel supplies for WASH, transport and health activities.

Justification for the revision

8. The humanitarian community has identified the severe scarcity of fuel as a major risk factor on their operations as well as on the delivery of critical national services and the supply chain of critical relief items and food. To address this gap, as lead agency of the Logistics Cluster and provider of last resort, WFP aims to establish a revolving fuel stock in Yemen to ensure a continuous fuel supply to key humanitarian services in Yemen through a cost-efficient solution in case of an interruption in the fuel supply chain.
9. It must be taken into consideration that, as fuel tankers started to be allowed in Hodeidah again on 21 December 2017, fuel imports might resume similarly to the situation before the blockade, which would seem to defeat the purpose of establishing the fuel facility. Following consultations with the main recipients of fuel within this project framework, UNICEF and WHO (see breakdown under paragraph10), both organizations have agreed to proceed with the project due to the following identified benefits:
 - a. Thanks to WFP's immunities, WFP cargo is more likely to be cleared and the infrastructures of the supplier will be deconflicted, which will help decrease the final price of diesel, thus benefitting the humanitarian community purchasing the fuel.
 - b. Both organisations would seek WFP cooperation to assure a stable fuel supply rather than being dependent on a volatile context and security situation.
 - c. WFP's experience on transporting, tracking and monitoring of commodities, adding an extra layer of oversight for avoiding fuel diversion, provide a critical added value.
10. Considering the above, WFP still deems the activity relevant and necessary to avoid further shocks in the fuel supply by setting up the revolving fuel facility, thus reducing risks and prices by aggregating the demand of all the humanitarian partners.
11. As the Logistics Cluster has been providing fuel on a cost-recovery basis to humanitarian organisations in Yemen since 2015, the fuel facility will be a part of existing Special Operation 200841; therefore, Budget Revision 5 is necessary to include the requirements and activities of this initiative.



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Planned Activities

12. WFP will assure continuity of the humanitarian services by managing its own diesel supply chain. WFP will aggregate the demand of the different humanitarian partners, and import the necessary amount to ensure the continuity of humanitarian services and activities. WFP through the Logistics Cluster has assessed the overall demand of the humanitarian community for the running of operations to be 5 million litres as follows:
 - a. UNICEF: 3.4 million litres per month in 14 different locations. (68 %)
 - b. WHO: 1 million litres per month to disburse to health facilities in 130 locations. (20 %)
 - c. Logistics Cluster partners: 0.6 million litres per month to cover the needs of the partners (12 %)
 - d. In addition, WFP may expand the figure of imported diesel to cater for its own services.
13. Therefore, WFP HQ will procure internationally up to the estimated 5 million litres of diesel to cover the fuel supply gap identified in coordination with the humanitarian partners. To facilitate the import clearance of the diesel as well as access to Hodeidah port, WFP will charter a fuel vessel allocated exclusively to WFP use. The minimum tanker capacity has been identified in 5 million litres, however depending on the context, WFP may decide to import a bigger vessel to reduce transport time, to benefit from economies of scale and to ensure continuity in the service.
14. WFP will work together with both international and local suppliers to obtain the best available sourcing, transport, storage and distribution options to ensure an uninterrupted critical fuel supply chain operation. A local company with relevant capacity will import, store and transport the fuel according to the identified needs and locations. WFP will provide an end-to-end solution to the organizations, delivering the fuel at the requested locations through a turn-key contract with a local service provider. Through the Logistics Cluster, WFP will ensure that the prioritisation and allocation of fuel is coordinated between partners.
15. WFP will operate the fuel facility as a revolving stock, as organisations will purchase the fuel on a full cost recovery basis. WHO and UNICEF, the main users, will sign a Service Level Agreement with WFP for the provision of the service, while the rest of the organisations purchasing the fuel through the Logistics Cluster partners will pay upfront, collecting their fuel directly at the Logistics Cluster fuel stations located in Hodeidah, Sana'a, and Aden. WFP will use the full cost recovery mechanism to continue purchasing fuel to replenish the revolving stock as needed.

Project Management

16. The WFP Yemen Country Director will continue to be the Fund Manager for this SO and the WFP Yemen Head of Finance will be the Allotment Manager.
17. The WFP Yemen Head of Supply Chain will continue to be the overall Project Manager for this SO and responsible for the implementation in coordination with the Logistics Cluster, Emergency Telecommunications Cluster, Aviation and Shipping:
18. Logistic Cluster Coordination Meetings will continue to be held with UN Agencies, NGOs, and donors in different locations in Yemen, as well as across the region (i.e. Amman and Djibouti), in order to identify and monitor logistics gaps and reach common solutions.

Key Performance Indicators (KPIs):

19. Logistics Cluster KPIs include:
 - Average monthly fuel disbursements: 4,500,000 litres (90 %)
 - Humanitarian organisations reached per month: 38 organizations (90 % of the 42 organisations that replied to the assessment)
 - Percentage of fuel requests fulfilled: (90 %)
 - User survey's service satisfaction rate from organizations receiving fuel facility services from Logistics Cluster: 80 % and above (Quantity and quality)



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Risk Management

20. A number of contextual, operational, and programmatic risk factors could impact the successful implementation of this activity within the framework of the Special Operation. WFP identified the following risks and proposes the following mitigating measures:

A. Lack of expertise:

- A dedicated team, including a fuel expert, will be deployed for a minimum of 10 months to oversee this project. The team, to be based across Sana'a and other key locations, will be in charge not only of supervising the fuel purchase, storage and transport, but also of advising and overseeing fuel consumption and use by humanitarian organisations.
- A delay in the issuance of visas, which hinders WFP's ability to deploy the necessary staff on a timely basis, is beyond WFP's control and is largely dependent on the parties to the conflict. However, the strong capacity of the private sector, and the support from the team redeployed in Amman will moderate that risk.
- Third party monitoring company will also be contracted to follow up on deliveries and uses.

B. Market price fluctuation

Given the lead-time from purchases to distributions (at least two weeks), the price of the fuel in the market might vary. With the return of the private sector fuel in the market, the initially procured price of diesel may become higher than the market price, which may slow down the disbursement.

- WFP will continue to monitor the market price. On the contractual side, depending on the evolving market price as well as the price offered by suppliers, WFP may set up a contract with the supplier to increase the frequency of supply to reduce the unissued stock in country. This may reduce the financial exposure to price fluctuations.
- As local price fluctuations, might lead to potential financial 'losses', WFP will establish a regular consultation mechanism with the donor and the partner community to ensure that joint and timely decisions are taken to accommodate the fluctuations.
- Cost-recovery calculation will be agreed upon by all parties to ensure sustainability of the operation for the duration of the project. The cost-recovery mechanism will be partial in the sense that the selling price from WFP to organizations will only include the price of fuel and of the transport and delivery to final distribution points. While organisations will pay the full price for these services, remaining costs (for instance, the third party monitoring and the staffing structure) will not be recovered as agreed with the donor. WFP will attempt to keep the selling price to organisations as aligned as possible with the market price. Exceptional circumstances will be managed on case-by-case basis, in consultation with the partners.
- Whenever the fuel market will resume working as before the blockade, the market price (price that organizations would pay on the market at a given moment) may reach a point where WFP cost-recovery price becomes more expensive than the market price. WFP will then start to sell the fuel at market price, and the fuel will be subsidized with the grant component of the funding allocation.

C. Lack of collaboration with local supply chain

The amount of litres imported through the revolving fund may trigger negative reactions from existing local suppliers weary of competition, bringing challenges to the importation of fuel, and adversely affect the market.

- WFP will seek to mitigate the impact by closely monitoring the market and collaborating with local actors. This partnership will assure a good integration of the activity into the current fuel supply chain in Yemen.

D. Fuel diversion

- Considering the strategic value of the diesel and the high risk of diversion, WFP will hire a third party monitor for adding a layer of security to the delivery. The appointed company will monitor the fuel at reception and at intermediary key points and will conduct as well quality and quantity inspections according to a pre-agreed quality control plan.
- WFP Security Unit will closely monitor any unforeseen incident that could occur during the deliveries to take any appropriate action with relevant authorities.
- WFP, together with its service partners, will establish a comprehensive Monitoring & Evaluation strategy to ensure that an agreed distribution plan is put in-place, and distributions to on-site



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locations monitored and reported. WFP will also ensure regular monitoring and reporting on procured stock levels.

E. Lack of clearances

Due to the current situation in Yemen in terms of both security and access constraints, there is a high possibility that the internationally procured fuel will not receive the necessary clearances to enter Hodeida port or any other Yemeni port. Potential delays in obtaining the clearance to enter Hodeida could also result in additional costs due to a prolonged chartering time span.

- WFP will leverage on its privileges and immunities, and on the relationship built with the parties to obtain import clearance and de-confliction across the supply chain to the final user. This is the most critical risk, which is beyond WFP's control and is largely dependent on the parties to the conflict.

F. Evolving nature of the conflict

The fluid situation in the front lines may also provoke a disruption on the supply routes. Having most of the storing and offloading capacity in Hodeidah, at certain moments of the conflict the supply line may be interrupted or even storage facilities destroyed. Risk of commandeering from the parties also exists, given the strategic value of the commodity.

- WFP will ensure to take into account the request of alternative ports of discharge for the fuel when contracting the supplier. However, a scenario where a WFP-chartered vessel simply cannot offload the cargo is not to be excluded.

G. Coordination

The number of actors involved in the project, will eventually present a challenge of maintaining a high level of coordination in order to ensure the provision of effective and efficient support.

- A Fuel Working Group has been established in February 2018 to ensure a smooth service provision. It will also allow partners to propose changes, improvements and raise their concerns on the project execution. In addition, WFP will hold the bilateral dialogues with donors funding the project.

H. Exit Strategy

- Once WFP support is no longer required, and the market reassumes its normal functionality, the remaining fuel will be delivered to the humanitarian partners as a grant.

Contingency Planning

21. Mitigation measures identified above already include some components of contingency planning as well as the exit strategy.

Recommendation

In light of the above, the budget revision 6 of Yemen Special Operation 200841 *Logistics & Emergency Telecommunications Augmentation and Coordination to Support Humanitarian Operations in Yemen* covering the period from 01 March to 31 December 2018 at a total budget increase of USD 14,915,911 is recommended for approval by the Deputy Executive Director.