



August 2019

Management comments to the Internal Audit Report of WFP Djibouti corridor management (AR/19/12)

Management Comments

WFP Management appreciates the observations made by the Office of the Inspector General (OIG) in its Internal Audit Report of WFP Djibouti corridor management (AR/19/12) covering the period 1 January 2017 to 21 December 2019.

The Djibouti Port has been the main corridor for cargo in and out of landlocked Ethiopia since the 1990s, providing a key link in commercial transport routes to and from the greater Horn of Africa. The port is likewise critical for the efficient flow of humanitarian goods.

By the late 2000s, the commercial throughput for the rapidly expanding Ethiopian market, combined with continued high volumes of food assistance, created significant strain on the Djibouti port and transport sectors, resulting in escalating logistics costs and increasing congestion and bottlenecks. To enhance efficiencies in both humanitarian and commercial logistics, in January 2012, WFP started Special Operation SO 200358 for the construction and management of a Humanitarian Logistics Base at Djibouti port with an initial budget of US\$19,404,251 and a duration of 20 months (01 January 2012 – 31 August 2013).

The scenario in which the business case for the Humanitarian Logistics Base was planned had fundamentally changed by the time the project was completed in December 2017. The envisaged tonnage volumes did not materialise and other transport corridors opened, allowing WFP and the wider humanitarian community to utilise other routes. This resulted in the Humanitarian Logistics Base and the silos therein remaining underutilised.

WFP Management recognises the value of the report's observations and concurs with the action points and overall audit conclusions of ineffective/unsatisfactory. WFP Management further recognises the considerable complexity in determining the operational and costing components both of the corridor and of the Humanitarian Logistics Base. In addition, Management notes that many of the supply chain costing figures provided in the report are subject to constant fluctuations based on contextual and operational changes, which are reviewed with respective corridor customers. The experience from the management of the Djibouti corridor has underscored the importance of ensuring the implementation of standardised approaches and good governance in corridor management globally.



The WFP Regional Bureau for East Africa (RBN) and the Supply Chain Division (OSC) have discussed all observations and agreed on the way forward to address them, including the preparation of an Integrated Corridor Management Action Plan that will outline a corporate strategy and governance structures for efficient corridor management.

WFP Management is confident that the implementation of the agreed actions will provide the necessary tools to ensure that best value solutions are implemented, thus addressing audit observations. The implementation of agreed actions is well underway. For example, the Djibouti Country Office has already made operational improvements to maximise the efficiency and utilisation of the corridor, such as a revision to container traffic arrangements. In parallel, WFP Management notes that there has been a much increased throughput in 2019 in the Djibouti corridor, and overall corridor management costs were reduced to US\$ 8.08 per mt in 2019.

The agreed actions are considered an important opportunity to further strengthen the effectiveness of internal controls, governance and risk management processes related to the management of the WFP Djibouti corridor. Management is committed to adequately implementing all the action points within the agreed implementation dates. Particular attention will be paid to addressing the four high-priority observations on:

- 1) The sustainability of the Humanitarian Logistics Base,
- 2) The corridor management strategy and governance framework,
- 3) The cost sharing model, and
- 4) Corridor management tools and co-ordination mechanisms.

The proposed review and confirmation of a corporate decision on the sustainability of the silos and the Humanitarian Logistics Base, the conduction of a comprehensive cost benefit analysis and a decision on the most efficient and effective delivery routes and transport modalities will be prioritized among the agreed actions.

WFP Management wishes to thank OIG for the valuable observations and support which will help WFP to improve the overall management of corridor operations.