Presentation Outline

Financial Framework Review: Objectives and Approach

Working Capital Financing Facility: Key Findings

Draft Decisions
Financial Framework Review: Objectives and Approach
Comprehensive Approach to the Financial Framework Review

Objectives of the review:
- Improve the predictability of funding, so that country operations can be planned with greater certainty
- Improve flexibility and alignment to results by reducing funding fragmentation, standardizing budgeting practices and improving tracking of implementation costs
- Enhance accountability in costing by identifying cost drivers and improving cost management

Draft Decision I – The Board welcomes the comprehensive approach to the financial framework review
Working Capital Financing Facility: Key Findings
Today’s Working Capital Financing Facility

- As a safety net, financing ceiling is backed by an Operational Reserve with a leverage factor of 6

Backed by an Operational Reserve of USD 101.2 million
There are three different financing needs within WFP.

### Release of funds
- Need identified
- Wait for funds
- Funds released

- Save time through Project Lending

### Food delivery
- Food ordered
- Wait for goods
- Food delivered to beneficiaries

- Save time through efficient Global Commodity Management

### Infrastructure

- Investments needed for vehicle, IT system, etc.
- Mismatch
- Cost recovery & benefits spread over years

- Solve mismatch through Corporate Services Financing
WFP’s new internal financing framework

**Internal Project Lending**
- Loans to projects with forecasted contributions as collateral
- *Funds released*
- **Increased stabilization of funding for COs**
- **Avoidance of pipeline breaks**

**Global Commodity Management**
- Food purchasing in advance of requests from projects
- *Food ordered*
- **Reduced food delivery lead times**
- **Efficiency gains through timing and scale effects**

**Corporate Service**
- **Investments needed for vehicle, IT system, etc.**
- Advance financing for corporate services
- **Cost recovery & benefits spread over years**
- **Increased efficiency of corporate services**
### Distinct risks for each of the three financing instruments in the WCFF

<table>
<thead>
<tr>
<th></th>
<th><strong>Internal Project Lending (Traditional Advance Financing)</strong></th>
<th><strong>Global Commodity Management Facility (Forward Purchase Facility)</strong></th>
<th><strong>Corporate Services</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risky Risks</strong></td>
<td>➢ The reduction in value or the non-realization of a forecasted contribution</td>
<td>➢ Risk of purchased quantities exceeding demand</td>
<td>➢ Long-term benefits fail to materialize</td>
</tr>
<tr>
<td></td>
<td>✅ Thorough approval process for project lending</td>
<td>➢ Other operational factors including risk of damage/expiry, infestation, inadequate quality, etc.</td>
<td>➢ Limited funding at project level results in inability to recover costs</td>
</tr>
<tr>
<td></td>
<td>✅ Clear lines of defense</td>
<td>✅ Strong demand planning and forecasting that is continually improving</td>
<td>➢ Loss of assets</td>
</tr>
<tr>
<td></td>
<td>✅ As a last resort, funds can be drawn from Operational Reserve</td>
<td>✅ Quality assurances embedded in food procurement contracts</td>
<td>✅ Cost-recovery scheme</td>
</tr>
<tr>
<td></td>
<td>✅ Vehicle Self-insurance</td>
<td>✅ Self-insurance scheme</td>
<td>✅ Careful review of long-term investments</td>
</tr>
<tr>
<td><strong>Track Record</strong></td>
<td>➢ Only one default of USD 5.9 million since the mechanism was established in 2005</td>
<td>➢ Total insured food losses within FPF have been less than 0.1 percent per year or 2,055 mt.</td>
<td>➢ To date, WFP has not had defaults</td>
</tr>
<tr>
<td></td>
<td>➢ Very high materialization rate of all forecasted contributions</td>
<td>➢ Uninsured losses are less than 0.3 percent or 6,033 mt.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Management and Accountability Department
Internal Project Lending can be expanded by advancing funds to projects against low probability forecasts.

The level of materialization of forecasted contribution is high regardless of low, medium, high probability.

The only difference is average time between forecast and confirmation date is longer for medium and low probability.

Source: WFP data (2013 forecasts), BCG analysis.
Draft Decisions
Proposed Changes to the Working Capital Financing Facility

Draft Decisions:

• Separation of the Forward Purchase Facility and Corporate Services advances from the Working Capital Financing Facility (Decision II);

• Establishment of a reserve for the Global Commodity Management Facility and the transfer of USD 6 million from Operational Reserve to the newly established Global Commodity Management Facility Reserve (Decision III);

• Establish ceiling of USD 570 million for the Working Capital Financing Facility to be used for internal lending for project operations (Decision IV);

• Maintain ceiling of USD 350 million for the Global Commodity Management Facility (Decision V);

• Establish ceiling of USD 70 million for Corporate Services advances for 2014 and looks forward to reviewing this regularly as part of future Management Plans (Decision VI);

• Use the Programme Support and Administrative Equalization Account as a reserve of last resort for Corporate Services advances (Decision VII).
Thank you