

Working Capital Financing: Current Business Processes and Opportunities for Expansion

Resource Management Seminar
29 January 2014



World Food Programme

Today's Objectives

- 1. Purpose of Session**
- 2. Overview of Processes and Current Utilization of Working Capital**
- 3. Outline Ideas for Working Capital Financing Expansion**
- 4. Next Steps**

1. Purpose of Session

Session will provide background for working capital and proposals for expansion

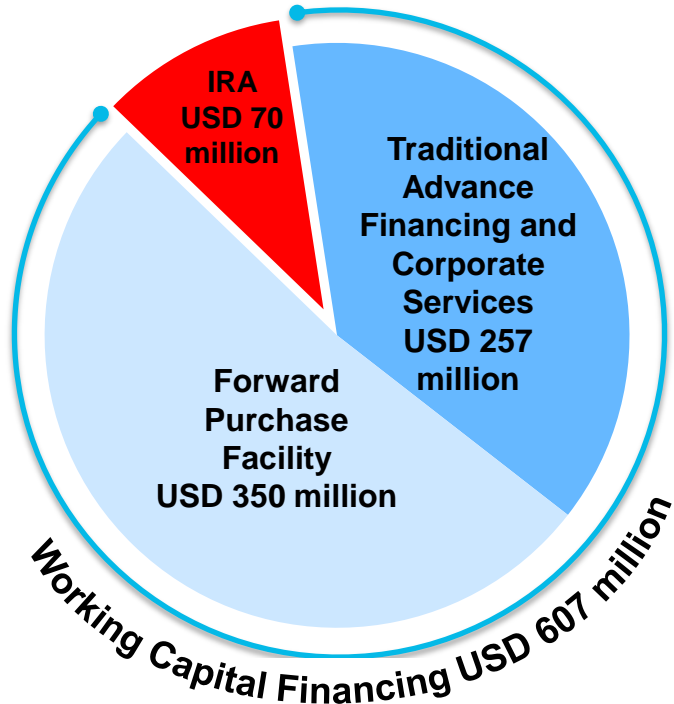
- **Introduce** advance financing facilities
- Provide **update** on level and scope of facilities' current utilization
- **Seek feedback** on proposals to expand working capital
- **Outline** next steps

Comments received from the Executive Board, FAO Finance Committee and the ACABQ will be incorporated in the next phase of the Financial Framework Review.

2. Overview of Business Processes and Current Utilization of Working Capital

Internal advance financing tools provide funding to projects in advance of contributions

Advance Financing Tools



Immediate Response Account

- Flexible, replenishable, revolving multilateral fund
- Ceiling established at USD 70 million
- Provides assistance in life-threatening situations without collateral

Working Capital Financing

- Backed by the Operational Reserve
- Financing availability based on leverage factor of 6 against Operational Reserve
- Traditional Advance Financing: Advances funds to projects and corporate services to support continuity using forecasted income as collateral.
- Forward Purchase Facility: Enables supply chain anticipation to procure commodities in advance of individual project requests and contributions

Working capital financing provides greater stability and predictability, increasing operational efficiency

- Traditional advance financing for individual projects reduced average lead times by **37 percent** and ensures business continuity
- Use of FPF reduced food delivery lead times by an average of **75 percent** by prepositioning food and averting pipeline breaks
- Utilized together, traditional advance financing and the FPF reduce the standard 106-day lead time for procurements by **85 percent**

Lack of working capital could delay emergency response efforts

Based on proven efficiency gains, WFP has significantly expanded advance financing since 2004

Advance Financing Loans (2004-2013)				
Year	Approved WCFF Ceiling (USD million)	No. of loans	Total advanced (USD million)	Average amount (USD million)
2004	60.0	5	27.1	5.4
2005	180.0	10	154.5	15.5
2006	180.0	4	36.8	9.2
2007	180.0	21	157.3	7.5
2008	180.0	58	324.6	5.6
2009	180.0	35	227.1	6.5
2010	557.0	62	418.8	6.8
2011	557.0	64	439.1	6.9
2012	557.0	120	636.1	5.3
2013*	557.0	132	942.8	7.1
Total		511	3 364.2	6.6

Advances to projects are constrained by current availability of working capital

- Current ceiling is only **6.1%** of the projected funded Programme of Work compared to an average of 10% for 2010-2012
- Four simultaneous Level-3 emergencies in 2013 have placed significant pressure on both WCFE and FPF
- Country Offices requested advances in December 2013 and January 2014 totaling US\$222 million

WCFE ceiling as % of Funded Programme of Work (PoW)			
	Funded PoW (USD million)	Available Financing (WCFE ceiling minus FPF allocation) (USD million)	Working Capital Availability as % of PoW
2010	4 129	407	9.9
2011	3 597	407	11.3
2012	4 044	407	10.1
2013	4 000	257	6.4
2014	4 200	257	6.1

Note: 2010-2012 based on total contribution income as reported in the Financial Statements; 2013 as estimated in Management Plan 2014-2016; 2014 forecast

In 2013, the forward purchasing approach was further mainstreamed in WFP's supply chain

- Since 2011, approximately 2.3 million metric tonnes of food (food value of over USD 1 billion) has been purchased under the Forward Purchase Facility
- In 2013, approximately 1 million metric tonnes of food were purchased, of which country offices procured nearly 900,000 metric tonnes

The optimum level of FPF activities may be reviewed within the annual Management Plan to align with projected food purchases

High volume FPF supply lines record significant lead-time gains and efficient capital usage

2013 Key Performance Indicators for Active Supply Lines

Indicator	Unit	East Africa	West Africa	Middle East	Southern Africa ¹
Lead-time with conventional supply line		108	104	68	120
Lead-time with FPF supply-line	days	19	20	25	37
Total FPF purchases	mt	471,000	138,000	247,000	97,000
Total sales to country offices	mt	477,000 ²	128,000	210,000	58,000
Average supply line	mt	240,000	48,000	39,000	25,000
Funded demand coverage	months	6	5	3	4
Capital utilized	days	214	87	175	38
Capital revolved	USDM	213	88	159	25
Capital rotation	Rotation/ year	2.2	3.2	5.4	2.9

¹ From July 2013.

² Some sales were revolved against 2012 purchases.

3. Outline Ideas for Working Capital Financing Expansion

To ensure working capital availability, three ideas are outlined to increase the amount of finance

Proposal 1

Increase the size of the Operational Reserve, and seek external guarantees for advances

Proposal 2

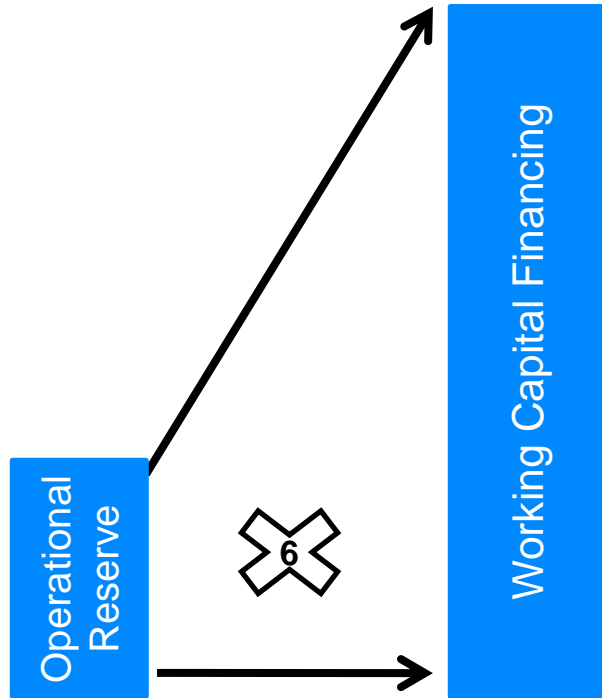
Change the leverage factor for individual advance financing tools on the basis of the underlying risk for each tool

Proposal 3

Provide advance funding for operations on the basis of country-level resourcing trends and forecasts

Implemented individually or together, these proposals seek to increase access to working capital while preserving WFP's conservative approach to risk management

Proposal 1: Increase the size of the Operational Reserve



- Current authorized level of the Operational Reserve is **USD 101.2 million** and leverage is applied by a **factor of 6**
- Expanding the Operational Reserve could be accomplished by:
 - Direct contributions to the Operational Reserve: every dollar received would increase the WCFF by six dollars, and/or
 - Guaranteeing certain types of advance financing under separate arrangements: limits recourse to the Operational Reserve and allows for more lending through the WCFF.

Proposal 2: Adjustment of leverage ratios to reflect different levels of risk

Tool	Associated Risk and Leverage Ratio
Immediate Response Account	<ul style="list-style-type: none">▪ Collateral is not required to obtain an IRA grant or loan resulting in a high level of risk▪ Leverage factor of 1 is maintained against the available IRA balance
Traditional Advance Financing to Projects and Corporate Services	<ul style="list-style-type: none">▪ Considered low risk as high & medium probability forecast contributions or cost-recovery schemes are utilized as collateral▪ Only one write-off against the Operational Reserve has occurred since 2005▪ Current leverage factor is 6; an increase in risk tolerance could warrant a factor of 10
Forward Purchase Facility	<ul style="list-style-type: none">▪ Global or regional contribution forecasts considered in demand purchasing plan▪ Considered medium risk as sufficient risk mitigation and oversight measures are in place▪ Current leverage factor is 6; an increase to 8 could be supported

Differentiating risk profiles could increase the available working capital

Proposal 3: “Pooled” Advance Financing

New Method for Assessing Collateral:

- “Pooled” advance financing would utilize a country’s **annual** contribution forecast or resourcing trends as collateral rather than project-specific contributions
- Country offices would receive an advance to cover a proportion of the total projected or core operational costs

Benefits

- Increased funding certainty would increase operational stability and continuity of services

Risk Mitigation

- Limit advances to only those Country Offices with established historical funding trends and a record of achieving annual contribution forecasts
- Granting only a proportion of anticipated contributions
- Recognizing the high risk, applying a lower leverage ratio against the Operational Reserve for this type of advance

4. Next Steps

Next steps for Financial Framework Review

Jan-Mar

- **External review** by Boston Consulting Group to examine the following priority areas:
 - Working Capital Expansion;
 - Current Funding Model Efficiency

Feb

- A first document, to be presented at the **First Regular Session** outlines the current advance financing facilities and rationale for expansion.

Mar-May

- **Consultative process** in March-May with the Executive Board

June

- A second document to expand the Working Capital Facility will be presented at the **Annual Session**

Thank you