

FORWARD PURCHASE FACILITY

WFP/EB.A/2012/6-B/1

WFP Financial Seminar

16 May 2012

Agenda

1. Overview of WFP Advance Financing Facilities
2. Overview of WFP Forward Purchase Facility
3. Proposal for expansion of Forward Purchase
4. Draft Decision for Executive Board approval

1. WFP ADVANCE FINANCING FACILITIES

Advance financing facilities in WFP

Improving operational effectiveness and efficiency

Immediate Response Account (IRA)

- Established in **1991** to provide immediate food, non-food items and logistics assistance in life-threatening situations.
- Report on the Use of the Immediate Response Account (1 January – 31 December 2011)
WFP/EB.A/2012/11

Working Capital Financing (WCF)

- Established in **2004** to advance funds to projects and corporate services using forecast income as collateral.
- Part of WCF earmarked for the Forward Purchase Facility (FPF) Special Account – established in **2008** to procure commodities in anticipation of requests by individual projects

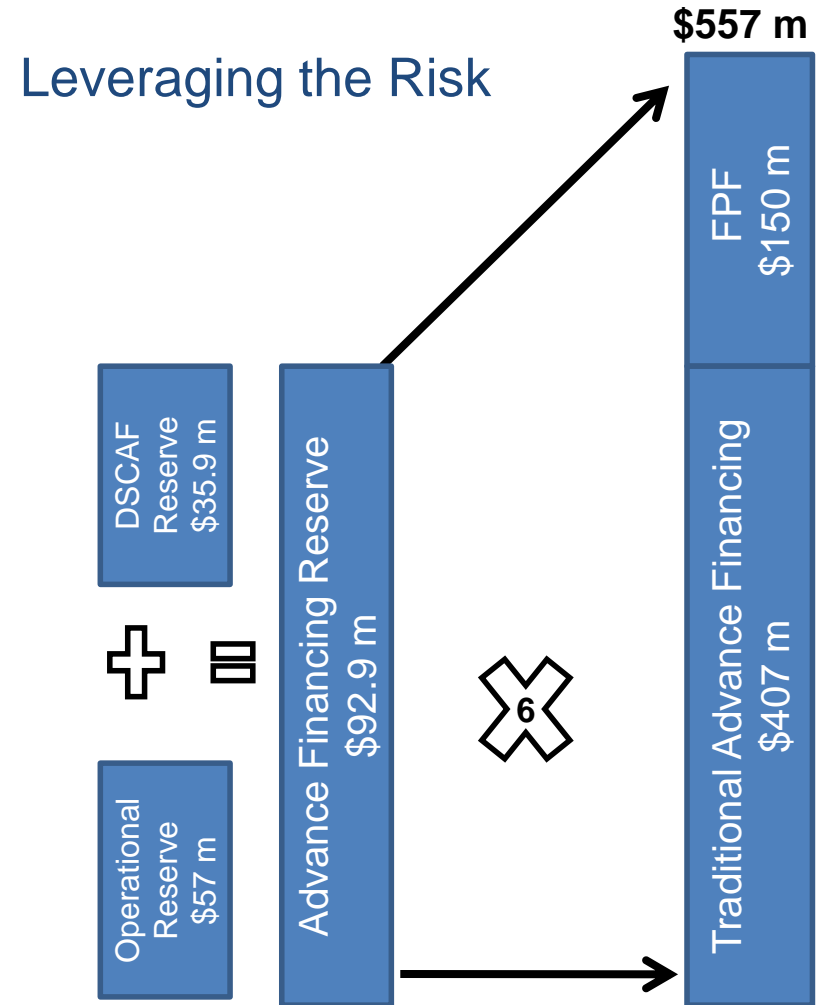
Expansion of WCF and FPF in 2010

Board approved an increase to WCF ceiling of US\$557 million

(WFP/EB.2/2010/5-B/1)

Enabling WFP to:

- Increase the amount available for traditional advance financing;
- Increase the allocation to the FPF special account from US\$60 million to US\$150 million
- Provide stable funding for corporate services



Working Capital Financing facility

Stabilize operational funding and implement rapid interventions

From 2004 to 2011:

- Advances to 197 operations
- 1.7 million mt of food
- 78 million beneficiaries in 67 countries
- Average lead time savings of 57 days
- Provided funding to start corporate services such as the Global Vehicle Leasing Pool

HISTORY OF WCF APPROVED LOANS			
Year	Number of loans	Total amount advanced (US\$ million)	Average loan amount (US\$ million)
2004	5	27.1	5.4
2005	10	154.5	15.4
2006	4	36.8	9.2
2007	21	157.3	7.5
2008*	58	324.6	5.6
2009	35	227.1	6.5
2010	62	418.8	6.8
2011*	64	439.1	6.9
TOTAL	259	1785.1	6.9

*FPF special account established in June 2008 with an initial allocation of up to US\$60 million. In 2011, the WCF allocated up to US\$150 million to the FPF special account.

2. FORWARD PLANNING AND PURCHASING – FORWARD PURCHASE FACILITY (FPF)

Key objectives of the Forward Purchase Facility

Objectives

Reduce supply lead-times;

Improve timeliness of food deliveries;

Procure food at **advantageous** times, in developing countries where possible; and

Reduce response times, particularly in emergencies.

Potential Additional Benefits

Cost savings (strategic purchasing and economies of scale)

Stimulate production capacities and supply of processed foods.

Development of the forward planning and purchasing approach

2008—2010

- Allocation of up to US\$60 million for a forward purchasing pilot in Eastern and Southern Africa region

September
2010

- Non-cereal purchases and capacity development provided with critical support from CIDA

November
2010

- The Board approved an increase in allocation from WCF to the FPF special account to up to US\$150 million

Nov. 2011 –
June 2011

- Advisory Group on Forward Purchase formed to guide expansion and review of forward purchasing

June 2011

- Strategic, demand-driven approach to forward planning and purchasing endorsed by WFP Executive Management

From pilot phase to a strategic forward planning and purchasing approach

Pilot Phase Request-Based Approach

- Ad-hoc requests, driven by specific & individual needs of RB
- Evolved from process used for advance financing
- Needs are usually urgent, therefore the use of the facility is not optimized
- Individual actions not sufficient to gain significant economies of scale

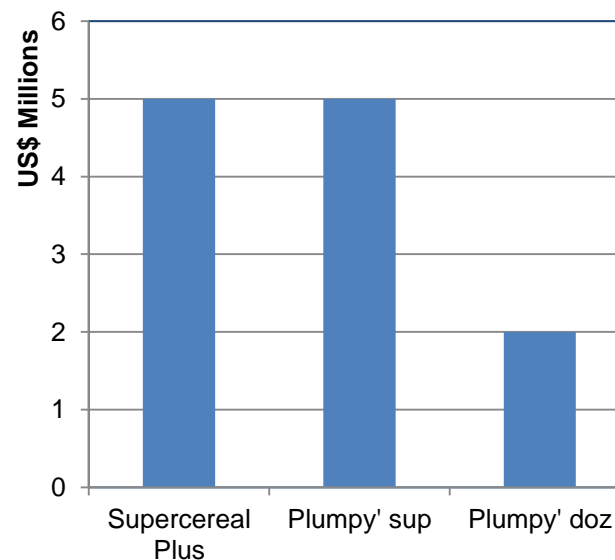
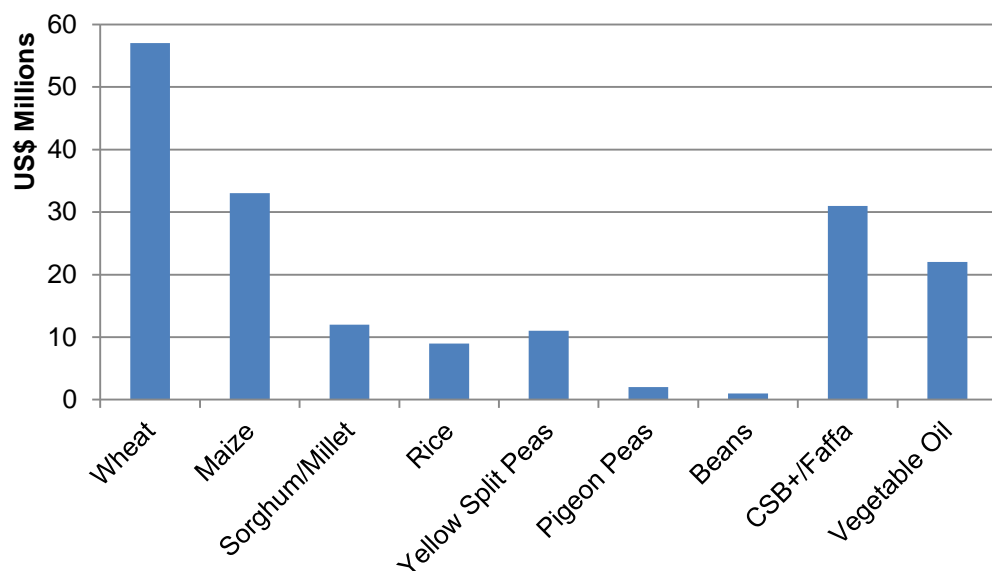
Forward Planning and Purchasing expansion Approach

- Country offices' needs and shortfalls are aggregated at corridor level.
- Historical trends and forecast contributions considered.
- Purchases made ahead of individual project requests.
- Integral component of WFP's supply chain

Forward Purchase Facts and Figures

	As of 20 February 2012		As of 17 April 2012	
FPF purchase requisitions	673,000 mt	US\$314 m*	836,350 mt	US\$344 m
Total amount procured	533,000 mt	US\$229 m*	691,780 mt	US\$307 m
Sold to projects	468,000 mt	US\$190 m*	623,374 mt	US\$267 m
Projects involved	29		32	
Average supply lead-time gain	56 days		64 days	

*Food Value Only



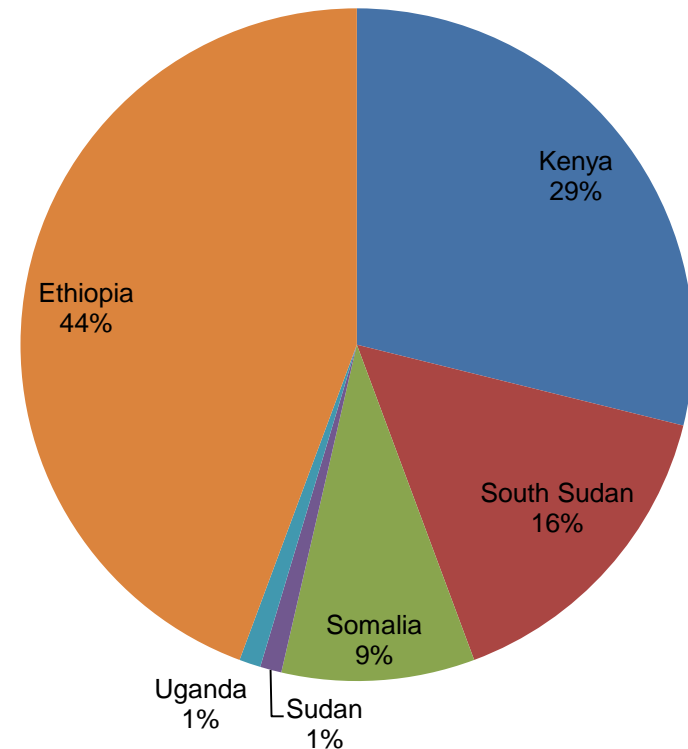
Expansion to all commodities, including nutritious products

Launch of forward planning and purchasing in **July 2011** to East Africa

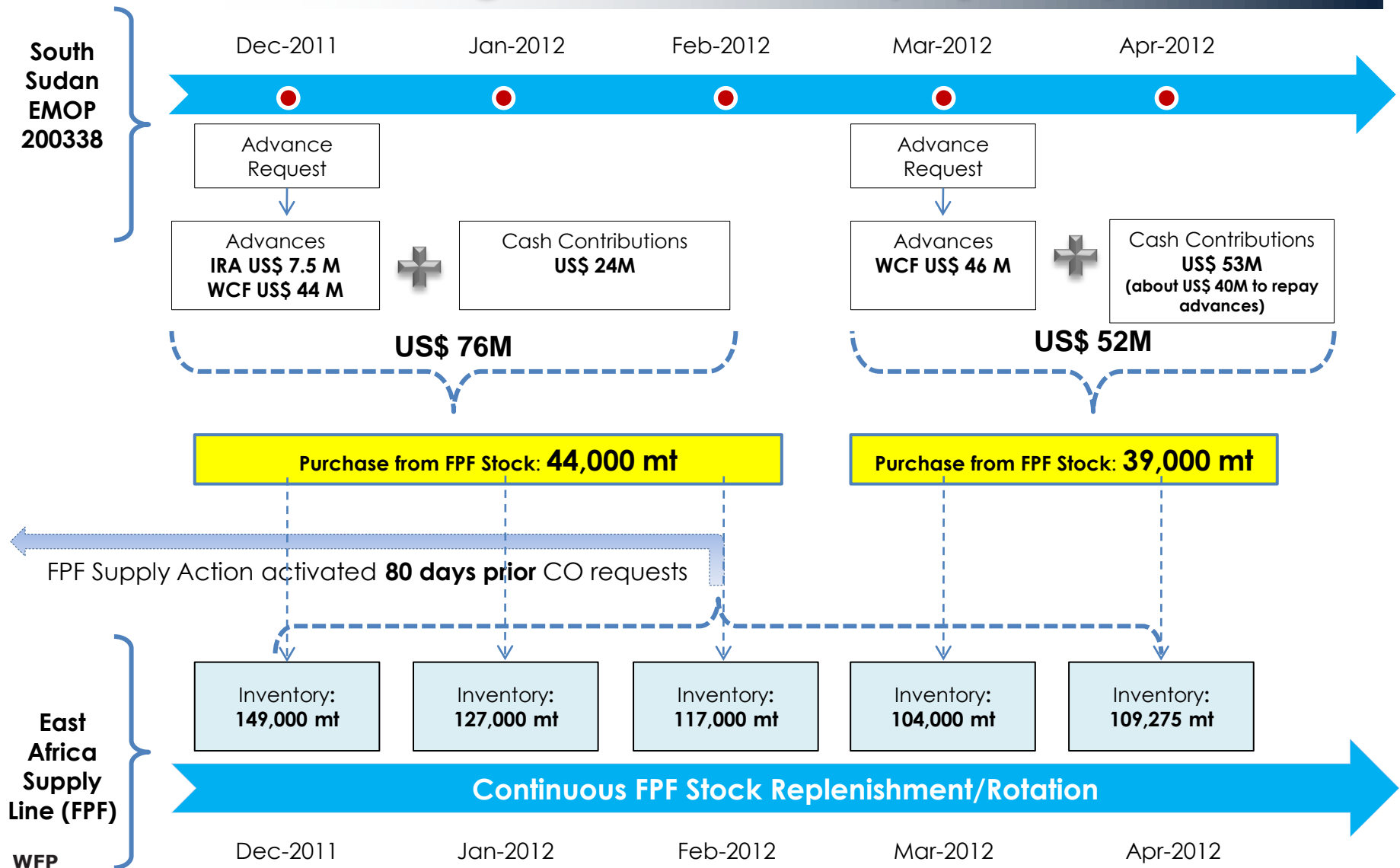
- Initial launch with US\$80 million (food value)
- FPF stocks rotated three times over only six month time
- As of April 2012, 582,075 mt of food valued at US\$230 million has been procured



Percentage of sales in East Africa supply lines



Financing mechanisms and project implementation

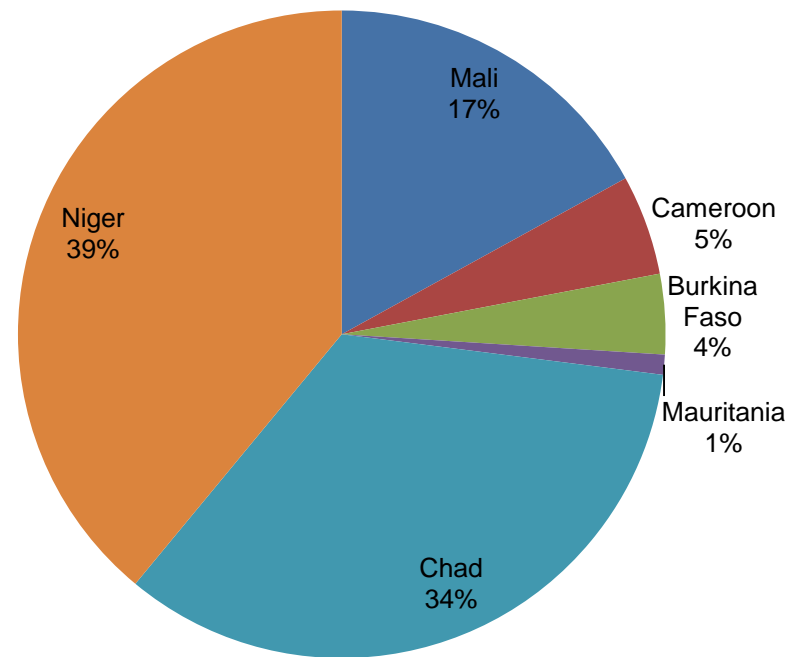


the average 60 – 90 days supply time gain allowed for critical prepositioning and distributions in the first months of 2012

Supply lines launched to West Africa in December 2011

- Initiated nearly two month before the actual Sahel response implementation scale-up
- FPF inventory rotation (revolvment) within the first three months, with large quantities of nutritious products
- As of April 2012, approximately 109,705 mt of food valued at US\$77 million has been procured

Percentage of sales in West Africa supply lines

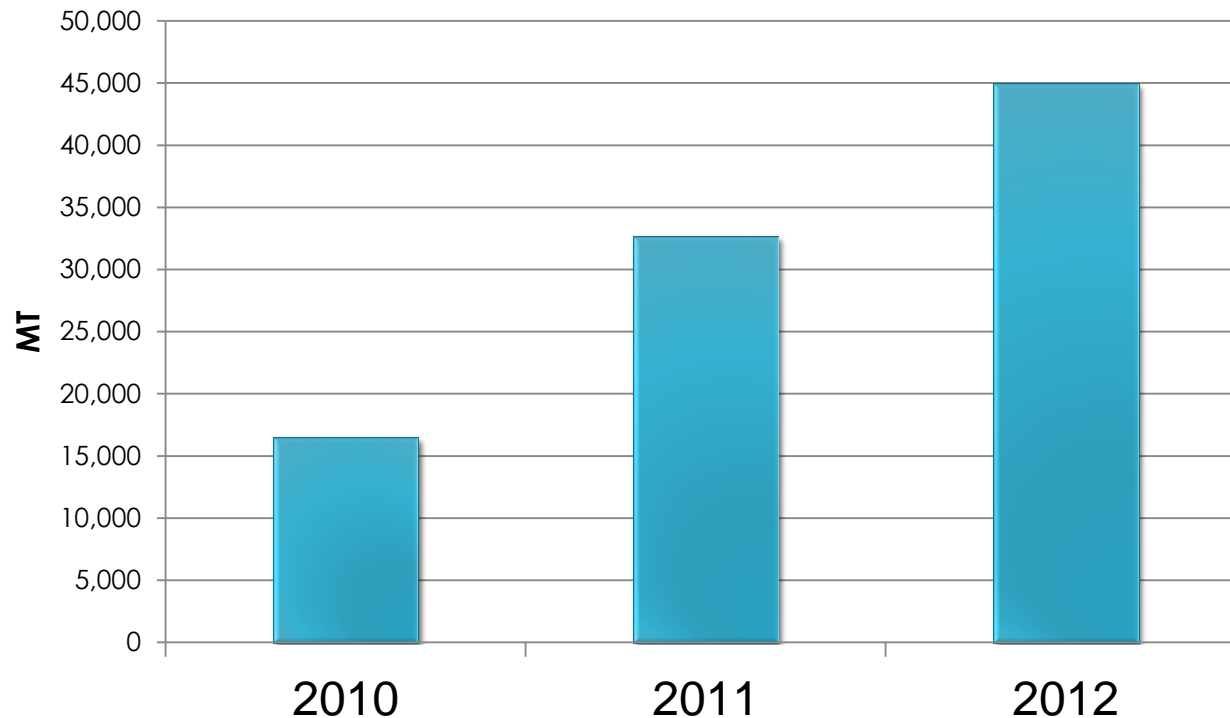


Nutritious products and production capacity constraints

- Demand for nutritious products including Supercereal Plus and lipid-based nutrient supplements is growing across WFP's projects
- Global production capacity of these nutritious products is limited
- Forward Purchase Facility enables WFP to book maximum orders to ensure a stable and viable supply line to help meet the anticipated demand

WFP Global Demand for Nutritious Product

Nutritious Products supply to WFP projects



**Significant increase in the use of nutritious products
(CSB++, Supplementary Plumpy and Plumpy Doz)**

Nutritious products and response readiness

- Prepositioning of nutritious products in UN Humanitarian Response Depots in Brindisi and Dubai
 - Implemented with CIDA funding for FPF implementation
 - Augment WFP's existing stock of high-energy biscuits
 - Released to country offices with urgent needs and funding
- Establish forward contract with suppliers to guarantee delivery of 1,000 mt of Supercereal Plus within seven days of a call-forward
- Complement to on-going purchases of nutritious products for East Africa and West Africa FPF supply lines
- Ensures WFP's access to limited production capacity

Utilization of US\$150 million allocated to FPF special account

- Existing supply lines and levels:
 - US\$102 million for supply lines in East Africa and West Africa
 - US\$2 million for forward positioning in Central America (recent decision)
 - US\$20 million⁽¹⁾ for the global purchases of Supercereal Plus and ready-to-use-supplementary food
 - US\$26 million for pre-financing of associated costs (e.g. transport)
- High level of utilization (nearly 100%) limits further expansion to additional supply lines or increase of inventories in the existing supply lines.

(1) CIDA funding for RUSF prepositioning is not included (about 7 Mil usd)

3. EXPANSION OF FORWARD PURCHASING

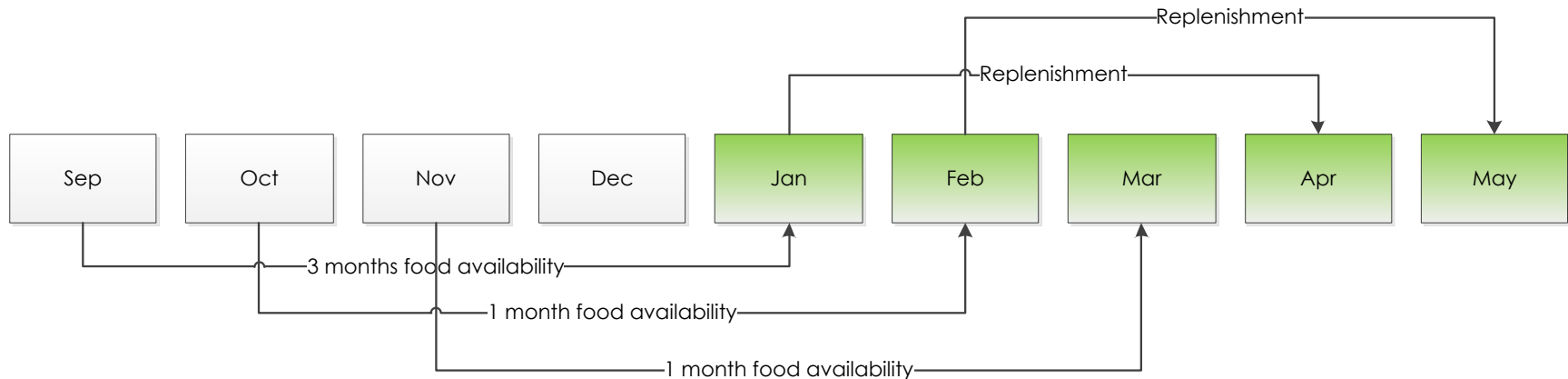
Establishing an annual target for FPF expansion

- A conservative FPF procurement target of 1.5 million mt (food value \$755 million) was developed following:
 - review of projected requirements in the Management Plan; and a
 - resourcing analysis based on historical trends and forecast cash contributions
- US\$755 million translates into an estimated US\$60 million per month of projected requirements (for food only)

Annual Minimum Target for Forward Purchasing*				
Food Type	Annual planned requirements (mt)	Annual planned food requirements (US\$M)	Annual forward purchasing target (mt)	Annual forward purchasing target (US\$M)
Cereals	3 477 000	1 273	1 130 000	416
Pulses	457 000	231	147 000	74
Mixed and Blended	514 000	472	160 000	148
Oil and fats	246 000	286	78 000	90
Other	93 000	82	32 000	28
Total	4 786 000	2 343	1 545 822	755

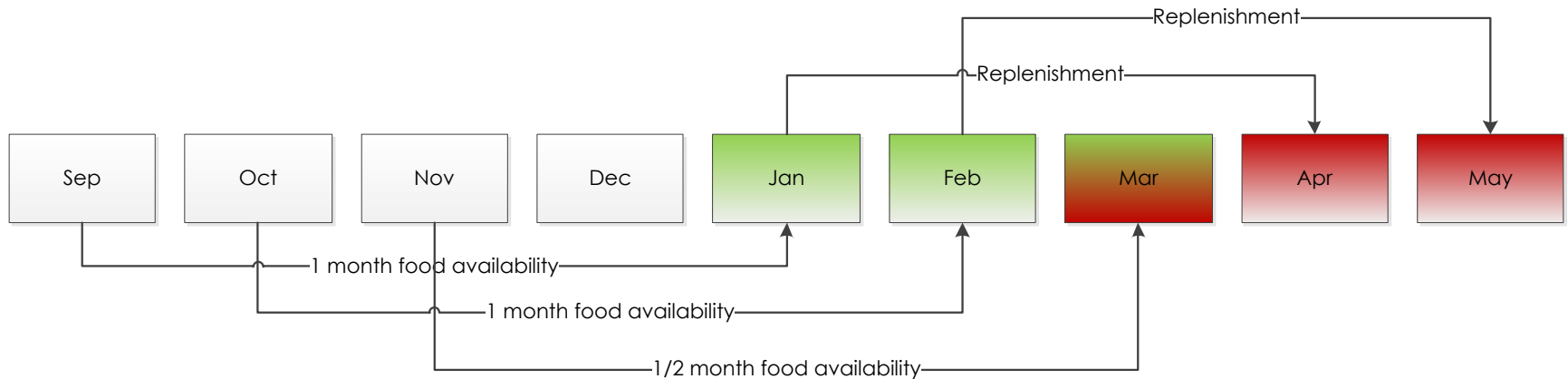
*Annual figures are based on approved Management Plan (2012—2014) and have been adjusted to reflect the latest projected requirements arising from unforeseen emergencies.

Creating a continuous supply line to projects will offer the maximum supply lead-time gains



- Three months of estimated monthly demand to be purchased at once in September to meet, four months later, the expected food purchase requests (Jan – March) from COs and Two additional months of estimated demand to be purchased – one in October and one in November – to maintain **availability of three months of 'inventory' at any one time** in the supply lines even with COs buying from FPF one month worth inventory every month.
- Continuous replenishment (new purchases under FPF) from January onwards to replace stocks COs/Projects purchase every month from FPF.
- With above approach COs will be supplied with food requested very quickly, with optimal lead-time gain

US\$150 million allocated to the FPF special account is insufficient for a continuous supply line



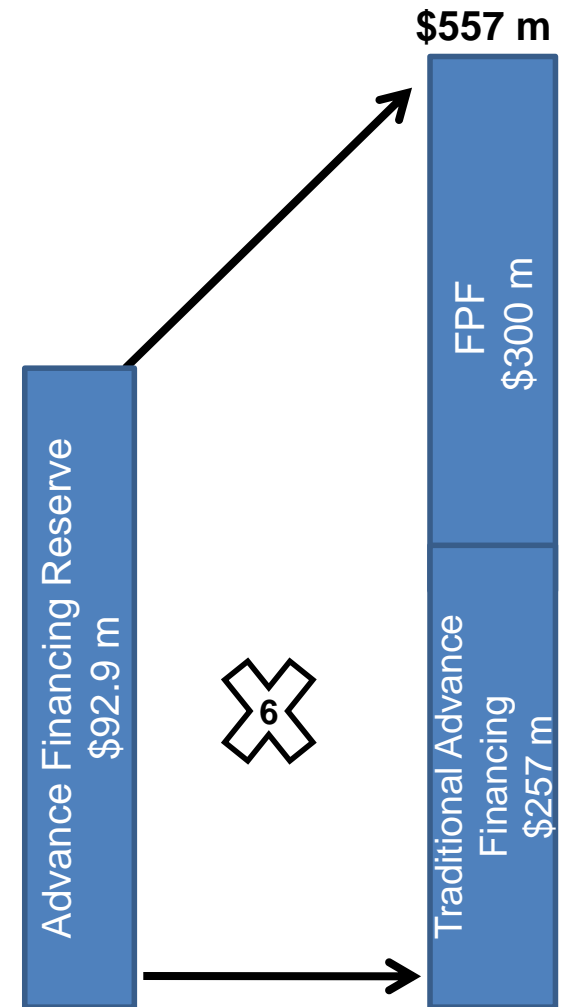
- The current allocation would only allow forward purchasing of two and a half months of the estimated monthly demand at the most
- With projects large level of purchasing from the FPF, actual replenishment (new purchases under FPF) would be possible but not allowing fast enough supply to maintain sufficient availability to respond to demand from March onward
- With above limitation COs will be supplied with food requested with some lead-time gains, but will also have to face availability delays

Allocation of US\$300 million from the WCF to the FPF special account will achieve a continuous supply line

- Progressive scale-up of FPF
 - Evaluation and consolidation of appropriate supply lines
 - Gradual increase to meet large-scale annual target
- Benefits of an expanded FPF
 - Establishment and consolidation of supply lines
 - Reduced supply lead-time
 - Improved timeliness of food deliveries to beneficiaries
 - Purchase large quantities of food at advantageous times
 - Minimized shipping costs and other logistics economies of scale

Minimal impact on traditional advance financing

- Under a ceiling of US\$257 million, WCF will continue to make loans to individual operations and to corporate services
- Improved resource forecasting and greater donor flexibility ensures project advances are timely revolved
- Projects benefiting from the supply lead-time gains and anticipation of the forward planning and purchasing process will require less advance financing
- Conservative loan ratio of 6:1 would be maintained against the advance financing reserve



Key risks and mitigation measures

- Price may decline after purchase
 - Market opportunities, trends and other factors are analysed before purchases are made through the FPF
 - Available corporate FPF stocks are prioritized over purchases of similar commodities
- Funding may not materialize
 - Process based on aggregated demand and resources projections (not individual project)
 - Inventories are not released to project for distributions unless CO/projects buy with funding
 - Historical trends and forecast contributions are analysed
 - Type of food purchased may be distributed in many countries
 - Purchases may be redirected to alternative supply lines
- Food may be damaged, spoiled or lost
 - Food is insured
- Donor conditions may restrict the use of the FPF and increase associated costs
 - Innovative tagging solutions are developed for providing donor visibility
 - Constraints are communicated to donors and viable work-around solutions are developed

4. DRAFT DECISION

Draft Decision

Having considered “Forward Purchase Facility” (WFP/EB.A/2012/6-B/1), the Board:

- i. Takes note of the current status of the Immediate Response Account and the Working Capital Financing facility; and
- ii. Approves the allocation of up to US\$300 million from the Working Capital Financing facility for the Forward Purchase Facility special account.

THANK YOU
