

Financial Framework Review Executive Board

4 June 2014



World Food Programme

resentation Outline

Financial Framework Review: Objectives and Approach

Working Capital Financing Facility: Key Findings

Draft Decisions

Financial Framework Review: Objectives and Approach

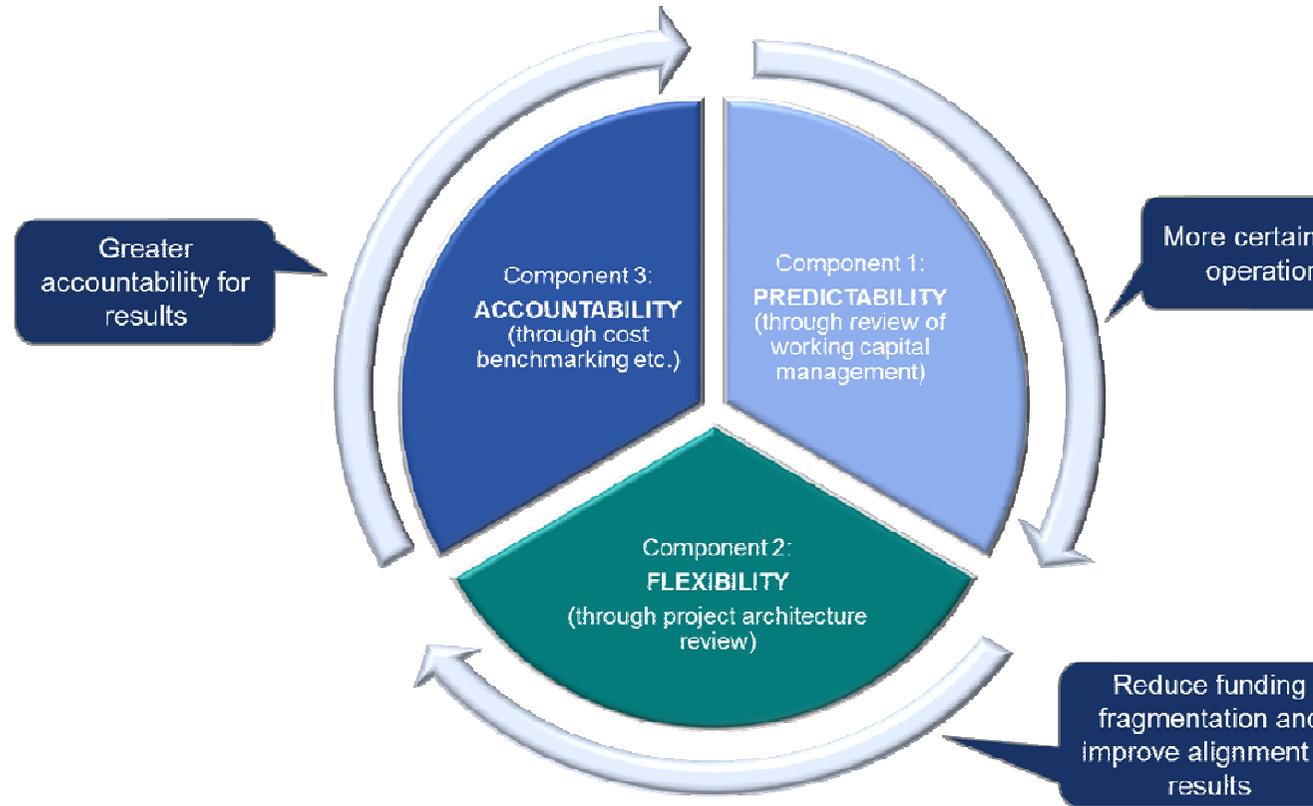
Comprehensive Approach to the Financial Framework Review

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

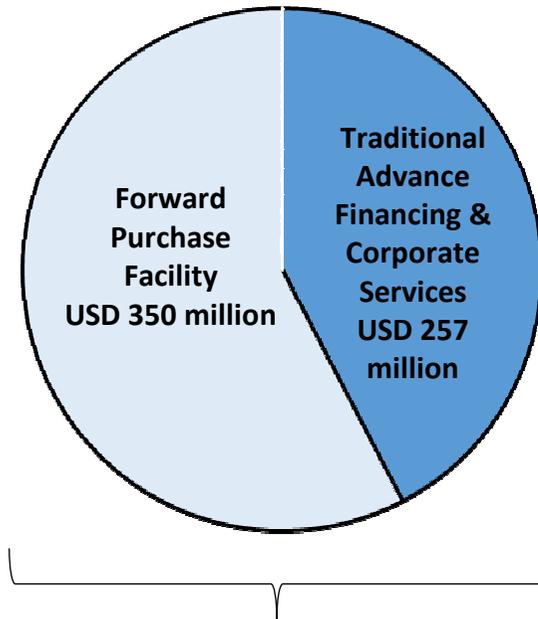


Draft Decision 1 – The Board welcomes the comprehensive approach to the financial framework review

Working Capital Financing Facility: Key Findings

Today's Working Capital Financing Facility

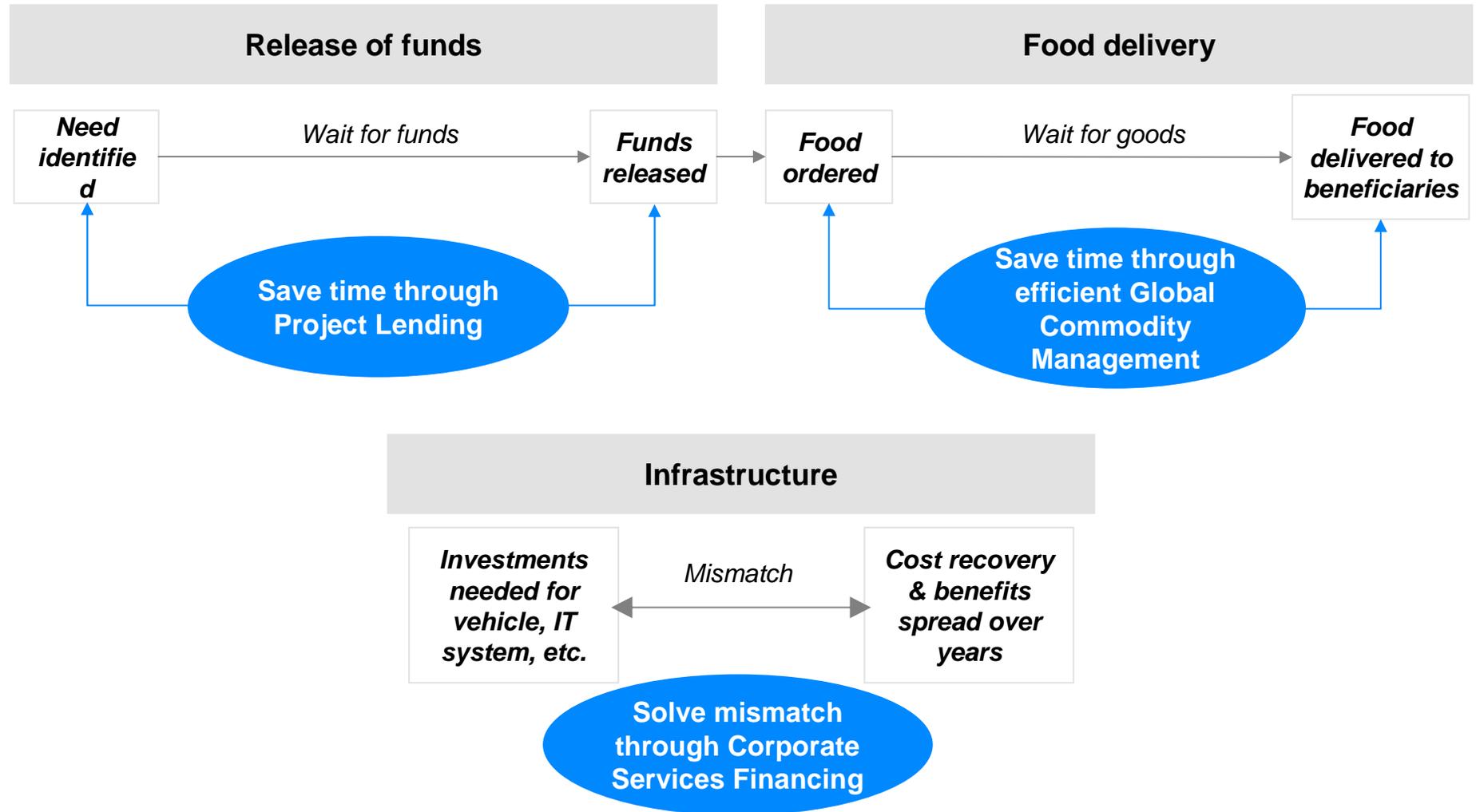
Multipurpose Working Capital Financing Facility
USD 607 million



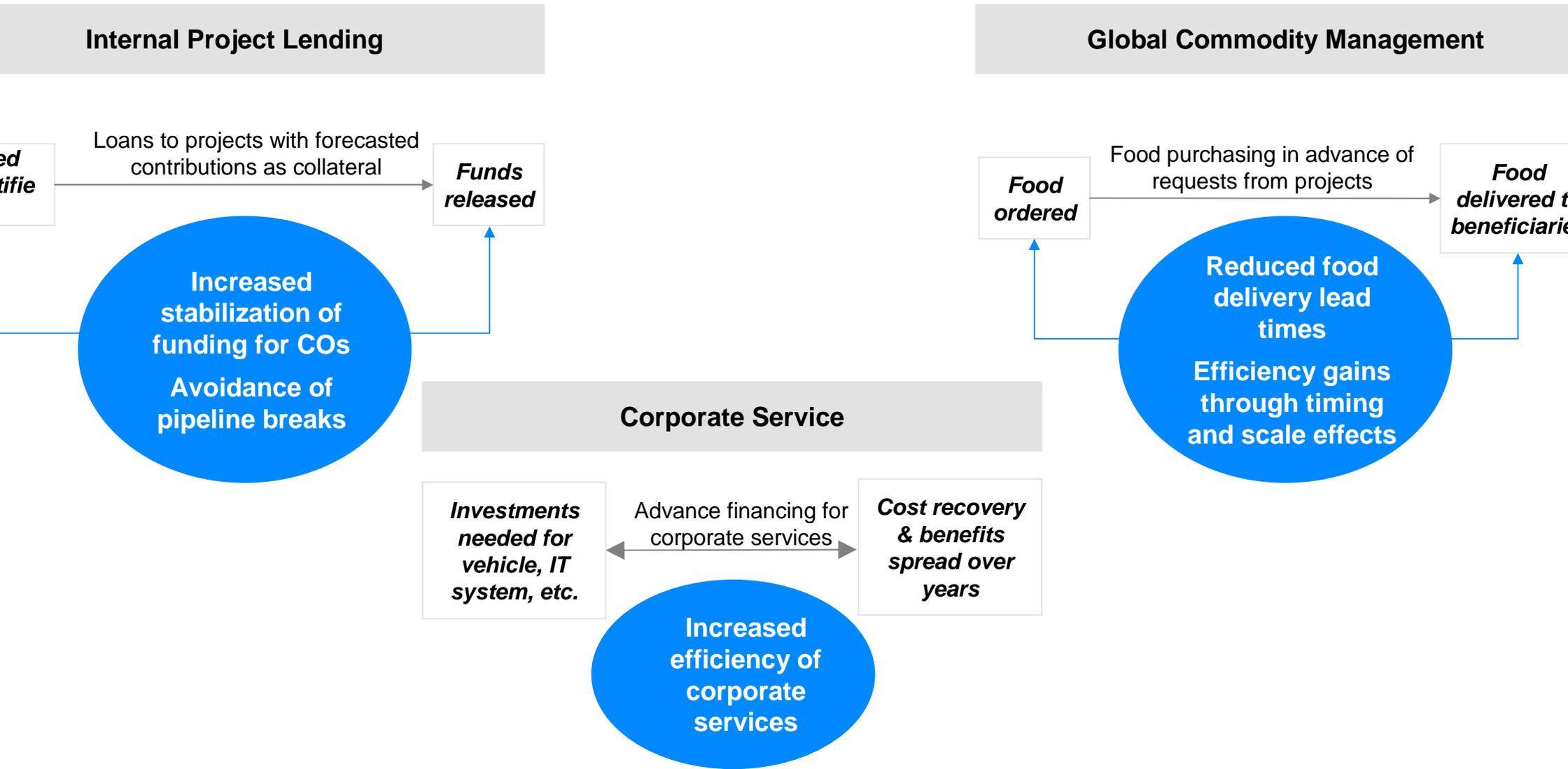
Backed by an Operational Reserve of USD 101.2 million

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

here are three different financing needs within WFP



WFP's new internal financing framework



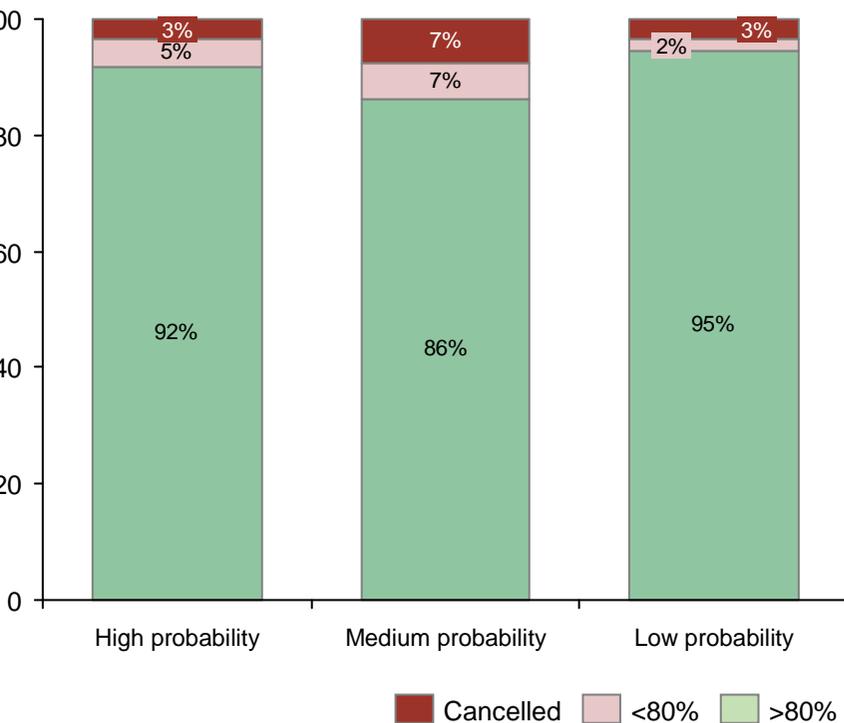
Distinct risks for each of the three financing instruments in the WCFF

	Internal Project Lending (Traditional Advance Financing)	Global Commodity Management Facility (Forward Purchase Facility)	Corporate Services
Key Risks	<ul style="list-style-type: none"> ➤ The reduction in value or the non-realization of a forecasted contribution 	<ul style="list-style-type: none"> ➤ Risk of purchased quantities exceeding demand ➤ Other operational factors including risk of damage/expiry, infestation, inadequate quality, etc. 	<ul style="list-style-type: none"> ➤ Long-term benefits fail to materialize ➤ Limited funding at project level results in inability to recover costs ➤ Loss of assets
Risk Management	<ul style="list-style-type: none"> ✓ Thorough approval process for project lending ✓ Clear lines of defense ✓ As a last resort, funds can be drawn from Operational Reserve 	<ul style="list-style-type: none"> ✓ Strong demand planning and forecasting that is continually improving ✓ Quality assurances embedded in food procurement contracts ✓ Self-insurance scheme 	<ul style="list-style-type: none"> ✓ Cost-recovery scheme ✓ Careful review of long-term investments ✓ Vehicle Self-insurance
Track Record	<ul style="list-style-type: none"> ➤ Only one default of USD 5.9 million since the mechanism was established in 2005 ➤ Very high materialization rate of all forecasted contributions 	<ul style="list-style-type: none"> ➤ Total insured food losses within FPF have been less than 0.1 percent per year or 2,055 mt. ➤ Uninsured losses are less than 0.3 percent or 6,033 mt. 	<ul style="list-style-type: none"> ➤ To date, WFP has not had defaults

Internal Project Lending can be expanded by advancing funds to projects against low probability forecasts

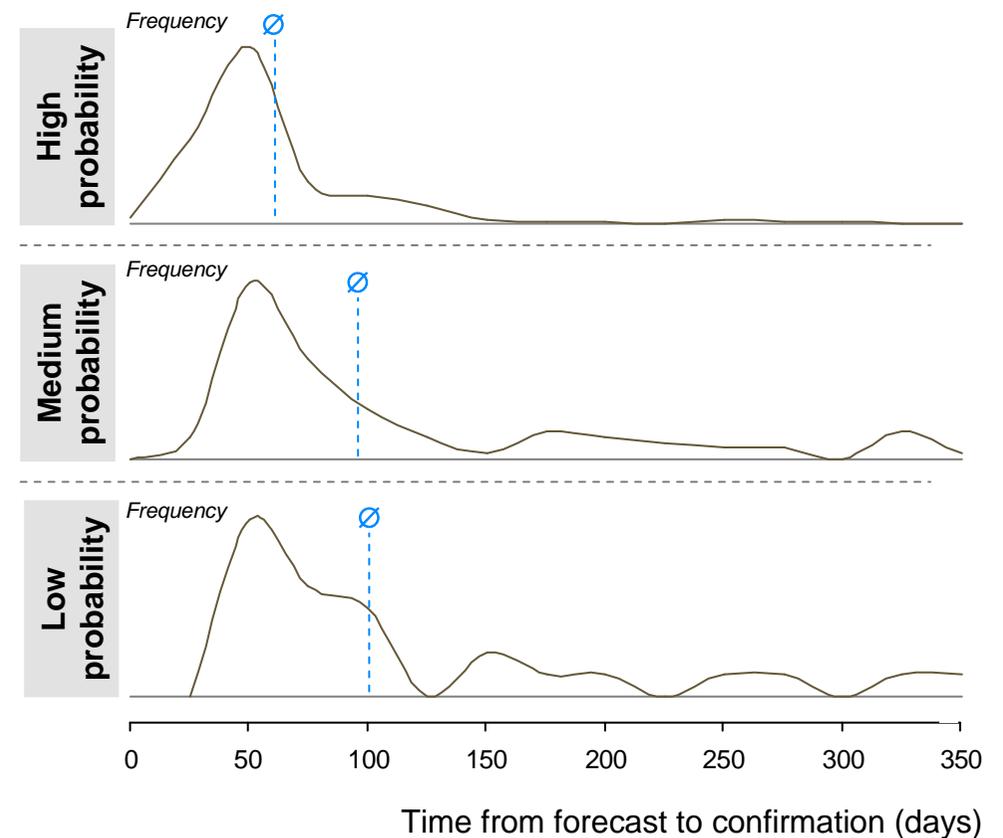
Level of materialization of forecasted contribution is high regardless of low, medium, high probability

Materialization level



Source: WFP data (2013 forecasts), BCG analysis

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

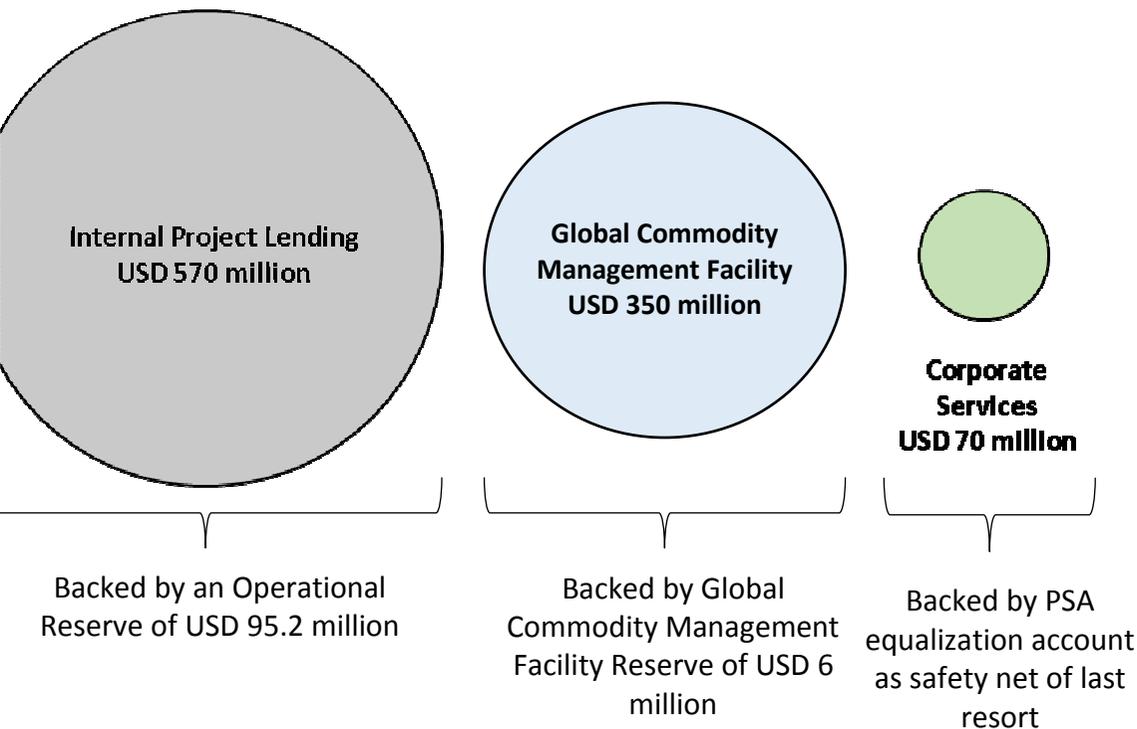


Source: WFP data (2013 forecasts), BCG analysis

Ø = average

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 the 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