

# Financial Framework Review: Working Capital Financing

WFP/EB.1/2014/4-A/1

First Regular Session  
10-11 February 2014



**World Food Programme**

# Today's Objectives

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- 1. Overview of Consultative Process to Date**
- 2. Review of Working Capital Availability**
- 3. Outline Proposals for Working Capital Financing Expansion**
- 4. Next Steps**

# Overview of Consultative Process To Date

# Seeking Feedback Today from the Executive Board

## Problem Statement

**Funding uncertainty can lead to poor value for money if decisions are based on short-term funding expectations**

## Feedback Sought

**Review options for expanding working capital. This would improve funding certainty and allow for better planning**

- The 2014 Financial Framework Review (FFR) has begun with a review of the Working Capital Financing facility
- Feedback is requested on an initial set of proposals for increasing financing availability for operations

# Initiated consultative process with key advisory bodies to address working capital availability

Presented proposals in Jan/Feb 2014 for review and comment to:

- Advisory Committee on Administrative and Budgetary Questions
- FAO Finance Committee
- Resource Management Seminar
- Investment Advisory Panel

Constructive dialogue identified several issues for further exploration:

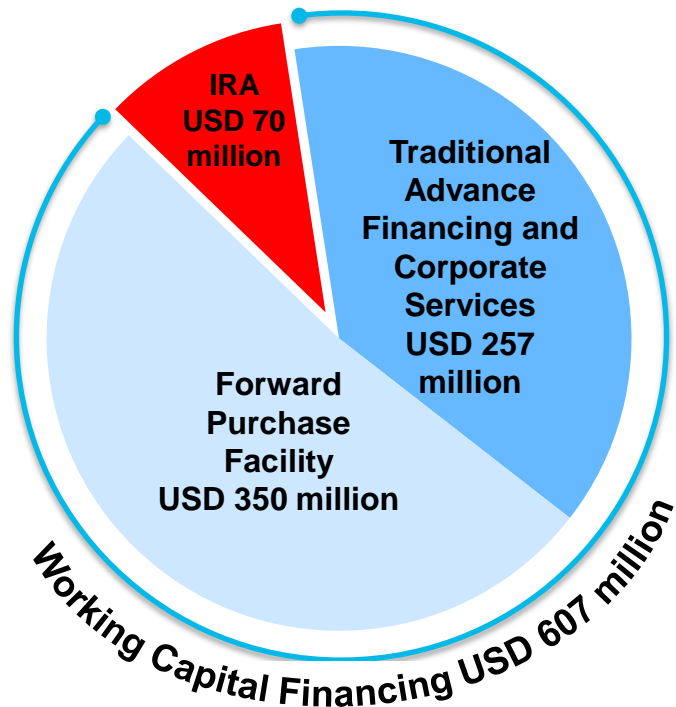
- Cost-Benefit Analysis
- Overall Size of Facility
- Country Office demand analysis for 'pooled' advance financing
- Financial Risk Management Measures

**Issues raised will be evaluated in the next phase of the review of the Working Capital Facility (March-May 2014)**

# Review of Working Capital Availability

# 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

# Advances to projects are constrained by current availability of working capital

- Current ceiling in 2014 is only **6.1%** of the projected funded PoW compared to average of 10% for 2010-2012
- Simultaneous Level-3 emergencies have increased usage of the WCFF
  - **82%** of available capital utilized in November 2013
  - **90%** of available capital utilized in January 2014
- Advance requests in December 2013 and January 2014 totaled US\$222 million

## Availability of Advance Financing for Projects and Corporate Services (2010-2013)

	Funded PoW (USD million)	Available Financing (WCFF minus PPF allocation) (USD million)	Working Capital Availability as % of PoW	Total of traditional advances (USD million)
<b>2010</b>	4 129	407	9.9	418.8
<b>2011</b>	3 597	407	11.3	324.7
<b>2012</b>	4 044	407	10.1	504.8
<b>2013</b>	4 000	257	6.4	539.3

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



# Outline Proposals for Working Capital Financing Expansion and Differentiation of Risk Profiles

# To ensure traditional 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

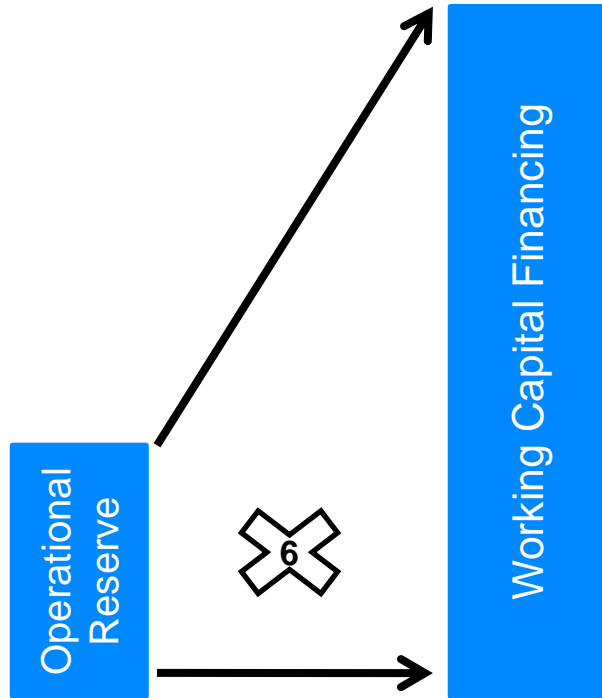
Change leverage factor for individual advance financing tools based on risk for each tool

## Proposal 3

Provide advance funding to projects based on 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 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"> <li>▪ Collateral is not required to obtain an IRA grant or loan resulting in a <b>high level of risk</b></li> <li>▪ Leverage factor of 1 is maintained against the available IRA balance</li> </ul>
Traditional Advance Financing to Projects and Corporate Services	<ul style="list-style-type: none"> <li>▪ Considered <b>low risk</b>: high &amp; medium probability forecast contributions or cost-recovery schemes used as collateral</li> <li>▪ Only one write-off against the Operational Reserve has occurred since 2005</li> <li>▪ Current leverage factor is 6; an increased leverage could be supported</li> </ul>
Forward Purchase Facility	<ul style="list-style-type: none"> <li>▪ Global or regional contribution forecasts considered in demand purchasing plan</li> <li>▪ Considered <b>medium risk</b> as sufficient risk mitigation and oversight measures are in place</li> <li>▪ Current leverage factor is 6; an increased leverage could be supported</li> </ul>

# Proposal 3: “Pooled” Advance Financing

## New Method for Assessing Collateral:

- 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 anticipated contributions for operations

## Benefits

- Increased funding certainty increases operational stability and continuity of services

## Risk Mitigation

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

## Next Steps

# Next steps for Financial Framework Review

Jan-Mar

- **External review** by Boston Consulting Group to examine:
  - Working Capital Facility Expansion
  - Current Funding Model Efficiency

Mar/Apr

- **1<sup>st</sup> Informal Consultation** with the Executive Board

May

- **2<sup>nd</sup> Informal Consultation** with the Executive Board

June

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

June-Nov

- **Continuation of Financial Framework Review** to increase visibility of our cost drivers, to enhance accountability and decision making at CO level

**Thank you**