

FORWARD PURCHASE FACILITY

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

WFP Annual Executive Board

5 June 2012

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

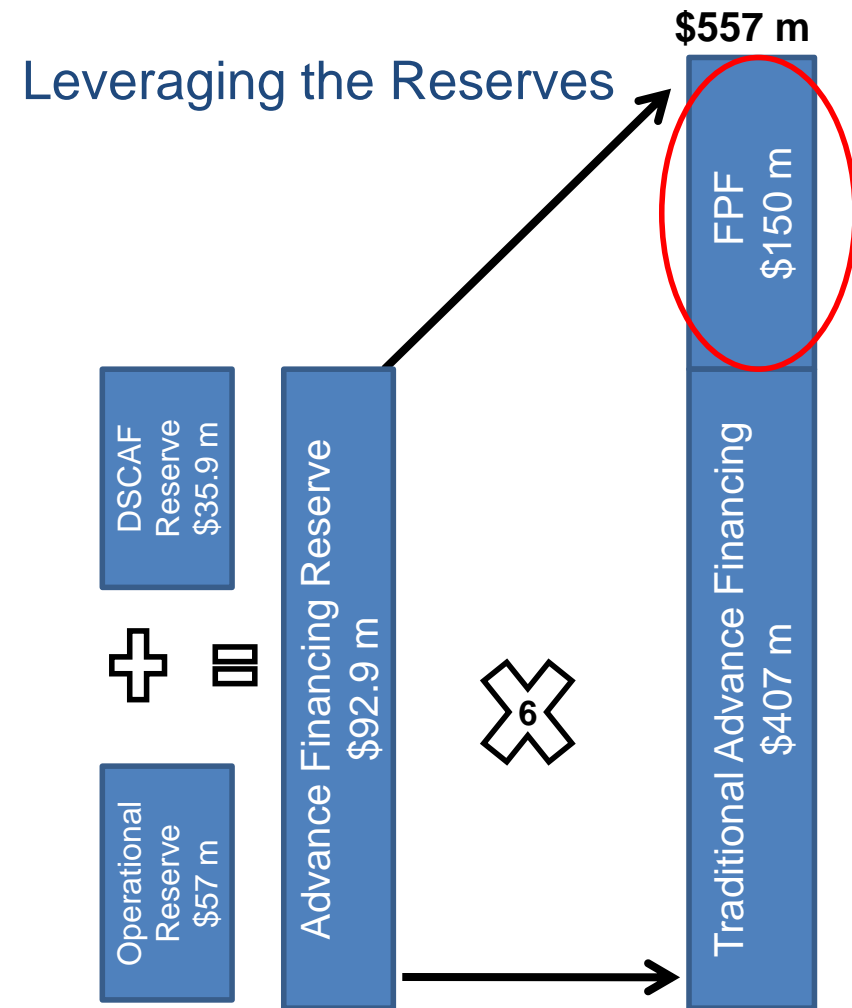
Expansion of WCF and FPF in 2010

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 funding for corporate services



Key objectives of the Forward Purchase Facility

Objectives

Reduce supply lead-times

Improve timeliness of food deliveries

Reduce response times, particularly in emergencies

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

Potential Additional Benefits

Cost savings (strategic purchasing and economies of scale)

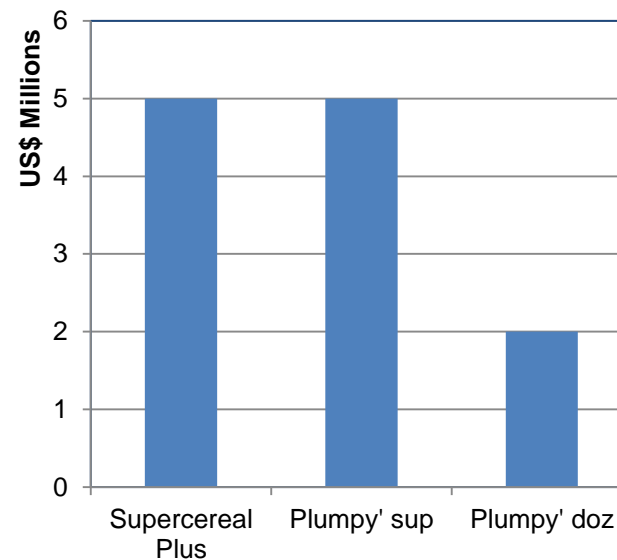
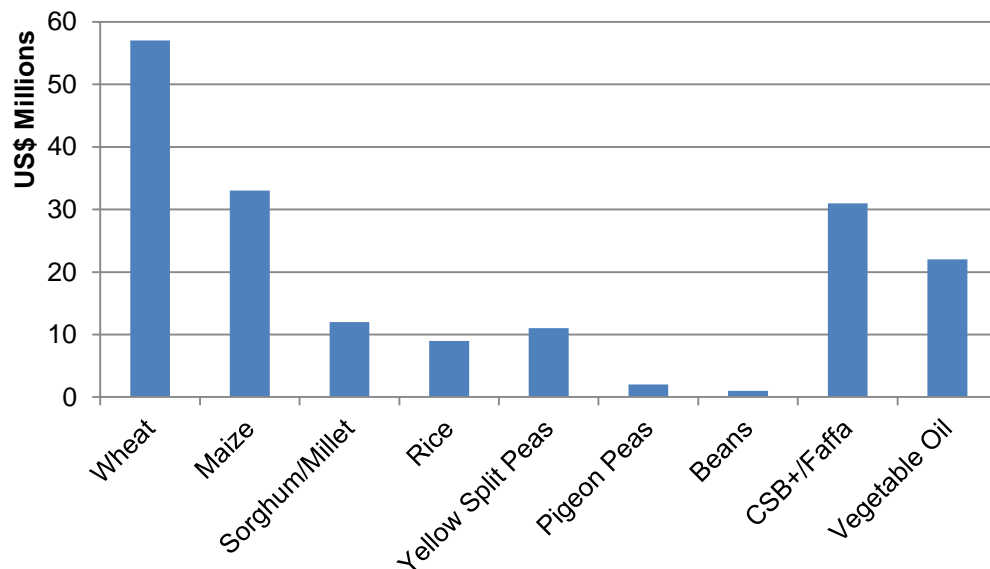
Stimulate production capacities and supply of processed foods.

Forward Purchase Facts and Figures

	As of 20 February 2012		As of 31 May 2012	
FPF purchase requisitions	673,000 mt	US\$314 m*	847,081 mt	US\$370 m
Total amount procured	533,000 mt	US\$229 m*	824,081 mt	US\$358 m
Sold to projects	468,000 mt	US\$190 m*	708,955 mt	US\$306 m
Projects involved	29		32	
Average supply lead-time gain	56 days		64 days	

*Food Value Only

US\$190 million in Sales to Projects, by food type, including US\$12 million in nutritious products
(as of 20/2/2012)

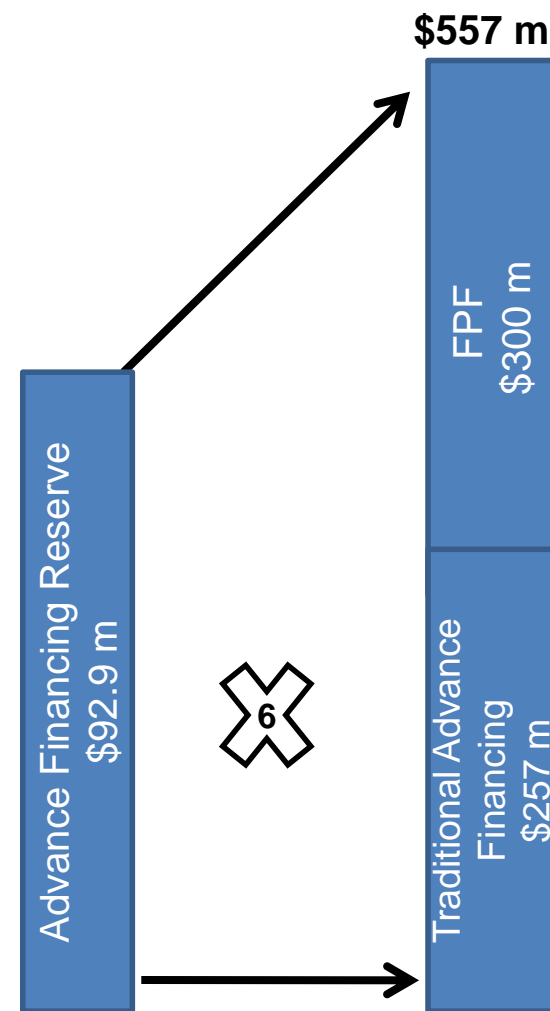


Expansion of Forward Purchasing

- To achieve the objectives of Forward Purchasing, supply lines must be established that can supply a continuous stream of food to projects
- Estimated that \$755 million of WFP's food requirements could be met from the Forward Purchase Facility in 2012
 - \$60 million in food requirements per month
 - Some associated costs to be added to requirements (port costs etc.)
- Given the current lead time in procurement and transport, four to five months of food would be required
- **Proposal to expand the Forward Purchase Facility to \$300 million**

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



Mitigating Risks and Maximizing Impact of FPF

- Prudent amounts of food purchased
- FPF uses most flexible commodities that could go to many countries
- WFP has extensive experience in contribution forecasting for advance financing facilities (no write-offs since 2005)
- Working with donors to promote FPF and design innovative tagging solutions

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
