Financial Framework Review
Informal Consultation on Resource Management
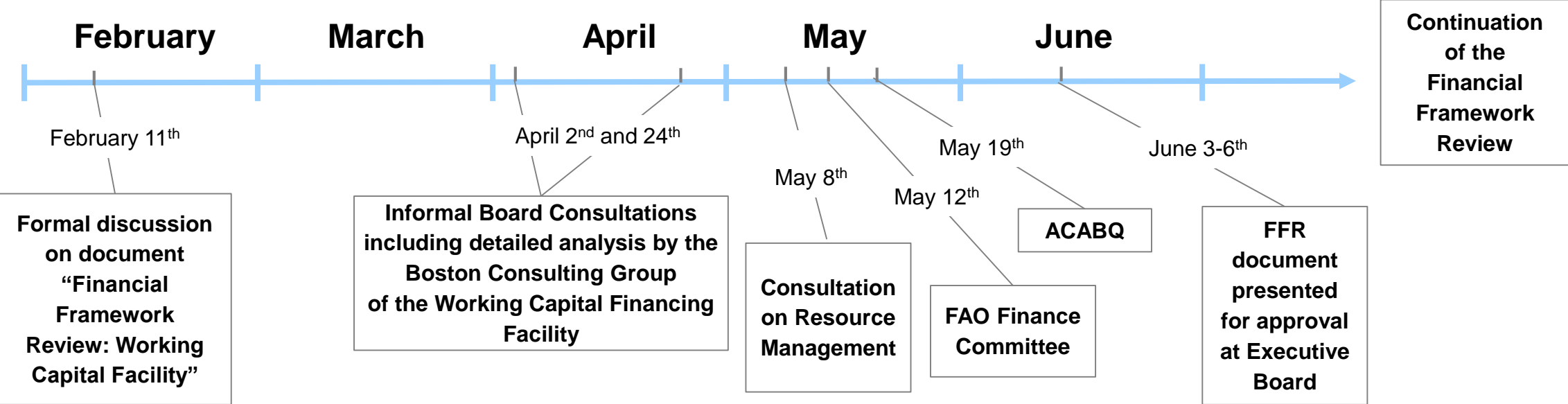
8 May 2014

WFP
World Food Programme
wfp.org

Agenda

1. Overview of the consultative process

2. Financial Framework Review objectives and approach

3. Working Capital Financing Facility Risk Analysis and Recap of BCG's Recommendations

4. Draft Decisions

Overview of Consultative Process

Overview Consultative Process

February   **March**   **April**   **May**   **June**

February 11th

April 2nd and 24th

May 19th

June 3-6th

May 8th

May 12th

Continuation of the Financial Framework Review

Formal discussion on document "Financial Framework Review: Working Capital Facility"

Informal Board Consultations including detailed analysis by the Boston Consulting Group of the Working Capital Financing Facility

Consultation on Resource Management

FAO Finance Committee

ACABQ

FFR document presented for approval at Executive Board

Financial Framework Review Objectives and Approach

Financial Framework Review seeks to enhance value for money by increasing the funding stability for country operations
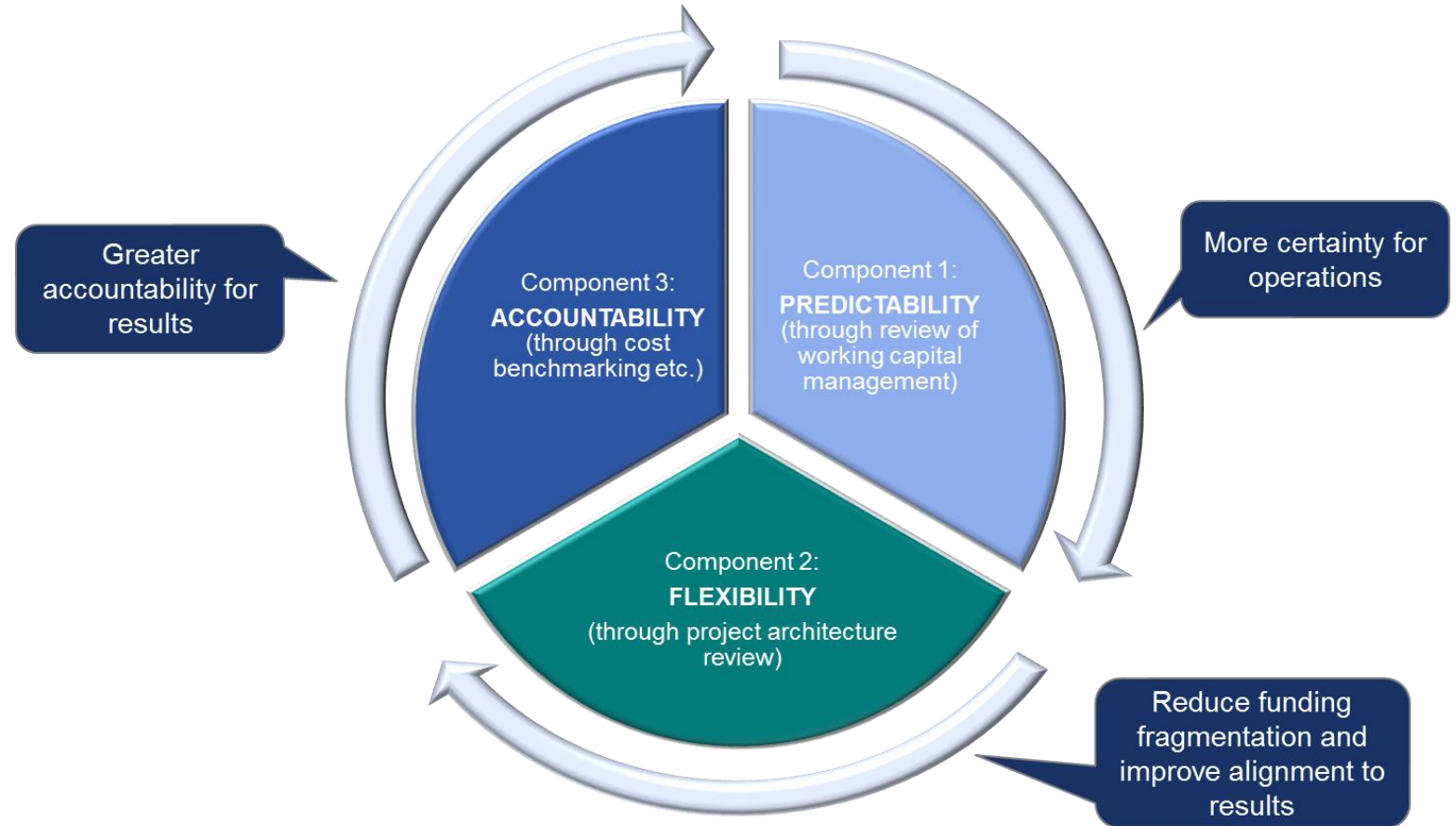
Objectives of the review:

- Stabilize funding for country offices by improving the predictability of funding, so that operations can be planned with greater certainty;

- Optimize the use of resources by reducing funding fragmentation, standardizing budgeting practices and improving tracking of implementation costs; and

- Enhance accountability in costing by identifying cost drivers, improving cost management and increasing the autonomy of country offices with regard to resource usage.

Comprehensive Approach to the Financial Framework Review

The review is comprised of the following three components:

➢ **Component 1**: Increasing predictability in resources for Country Offices;

➢ **Component 2**: Improving flexibility by reviewing and refining WFP's funds management structure;

➢ **Component 3**: Improving accountability of planning and cost management through the development of a country office cost benchmarking framework and tool kit.

Greater accountability for results

More certainty for operations

Component 3: **ACCOUNTABILITY** (through cost benchmarking etc.)

Component 1: **PREDICTABILITY** (through review of working capital management)

Component 2: **FLEXIBILITY** (through project architecture review)

Reduce funding fragmentation and improve alignment to results

Working Capital Financing Facility Risk Analysis and Recap of BCG's Recommendations
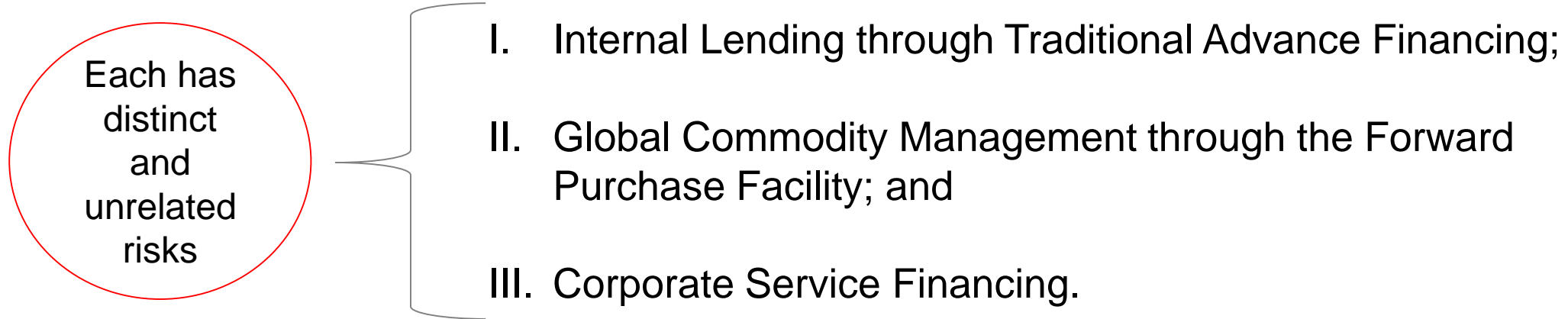
Financial Framework Review June Board Document

Document's Focus:
Component 1 - a review of the current structure of the Working Capital Financing Facility (WCFF)

WCFF scope has expanded over the years to include three distinct financing instruments:

Each has distinct and unrelated risks

I. Internal Lending through Traditional Advance Financing;

II. Global Commodity Management through the Forward Purchase Facility; and

III. Corporate Service Financing.

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	➢ The reduction in value or the non-realization of a forecasted contribution	➢ Risk of purchased quantities exceeding demand ➢ Other operational factors including risk of damage/expiry, infestation, inadequate quality, etc.	➢ Long-term benefits fail to materialize ➢ Limited funding at project level results in inability to recover costs ➢ Loss of assets
Risk Management	✓ Thorough approval process for project lending ✓ Clear lines of defense ✓ As a last resort, funds can be drawn from Operational Reserve	✓ Strong demand planning and forecasting that is continually improving ✓ Quality assurances embedded in food procurement contracts ✓ Self-insurance scheme	✓ Cost-recovery scheme ✓ Careful review of long-term investments ✓ Vehicle Self-insurance
Track Record	➢ Only one default of USD 5.9 million since the mechanism was established in 2005 ➢ Very high materialization rate of all forecasted contributions	➢ 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.	➢ To date, WFP has not had any defaults

The Boston Consulting Group's Analysis and Conclusions

Internal Project Lending

➢ Very low risk today with only one default

➢ Large majority of forecasted contributions currently materialize at 80% or greater

➢ Project Lending can be extended & expanded - by advancing against low probability forecasts and increasing % of forecasted amount being lent out

➢ Current leverage factor could be increased to 10:1

➢ From operational perspective, ceiling of USD 600 million is recommended

**Global Commodity Management (Forward Purchase Facility)**

➢ Risks can be limited through strong demand planning and forecasting, as well as operational risk management

➢ To ensure full risk coverage, self-insurance should be extended to cover all types of food losses

➢ Does not need to be backed by an Operational Reserve when extended insurance coverage is fully in place

➢ For clarity and good governance Global Commodity Management should be separated from WCFF

Corporate Services

➢ Risks are very low as they can be managed effectively, e.g. through vehicle self-insurance

➢ Therefore, no Operational Reserve backing needed. PSA Equalization account can serve as a safety net of last resort.

➢ For clarity and good governance Corporate Services should be separated from WCFF

BCG's Analysis on Materialization of Forecasted Contributions

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

Materialization level

| | Cancelled | <80% | >80% |
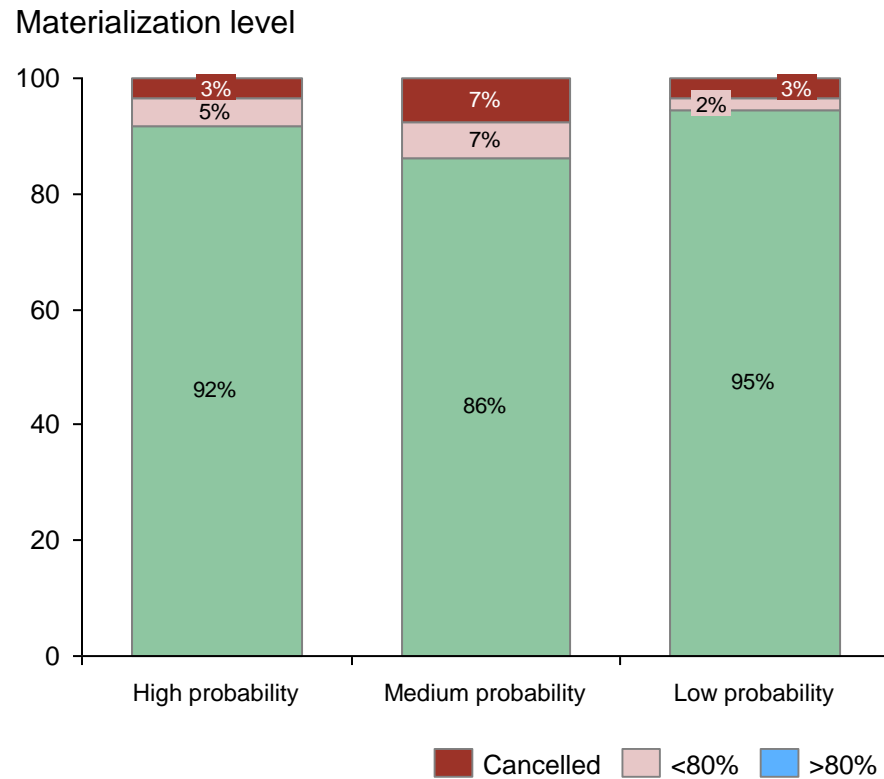
Source: WFP data (2013 forecasts), BCG analysis

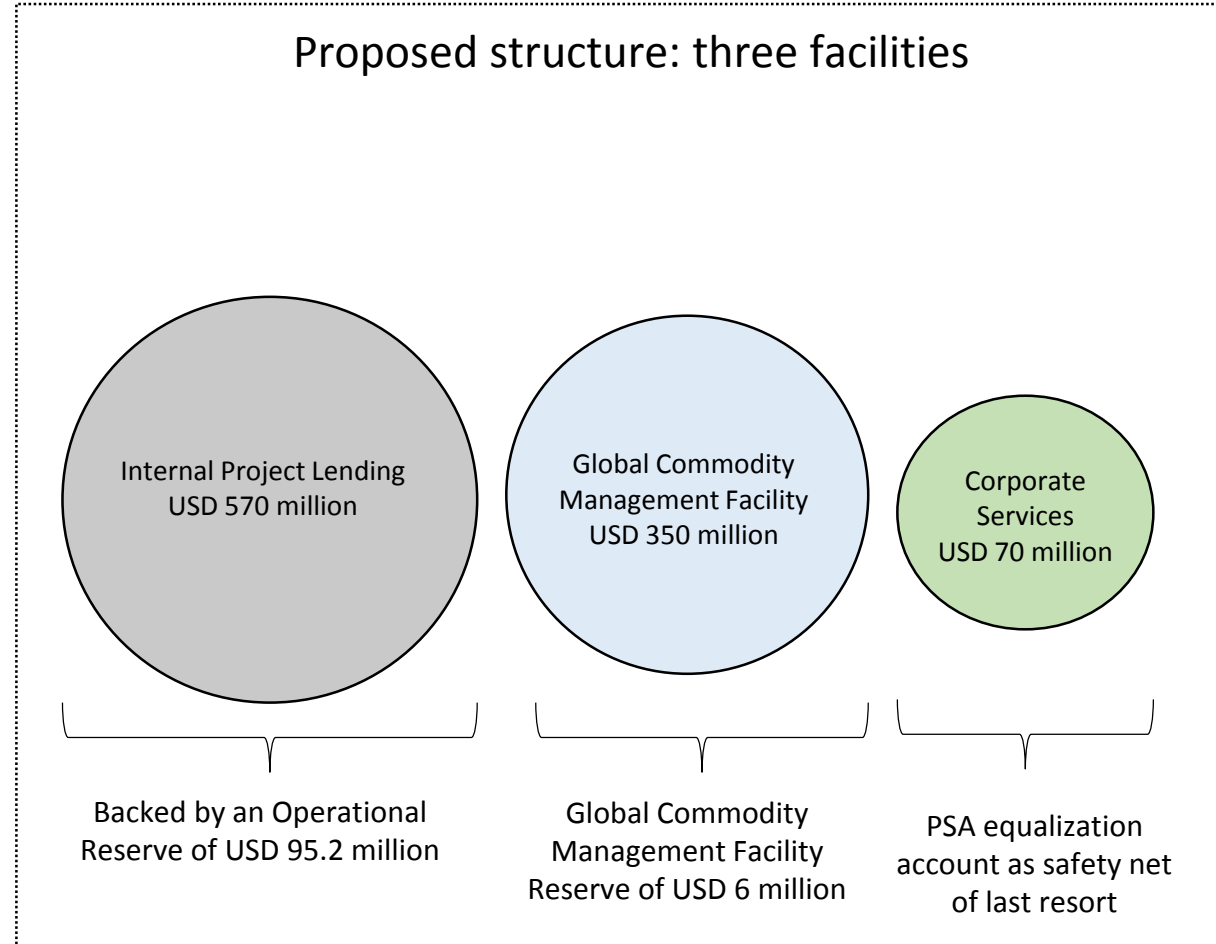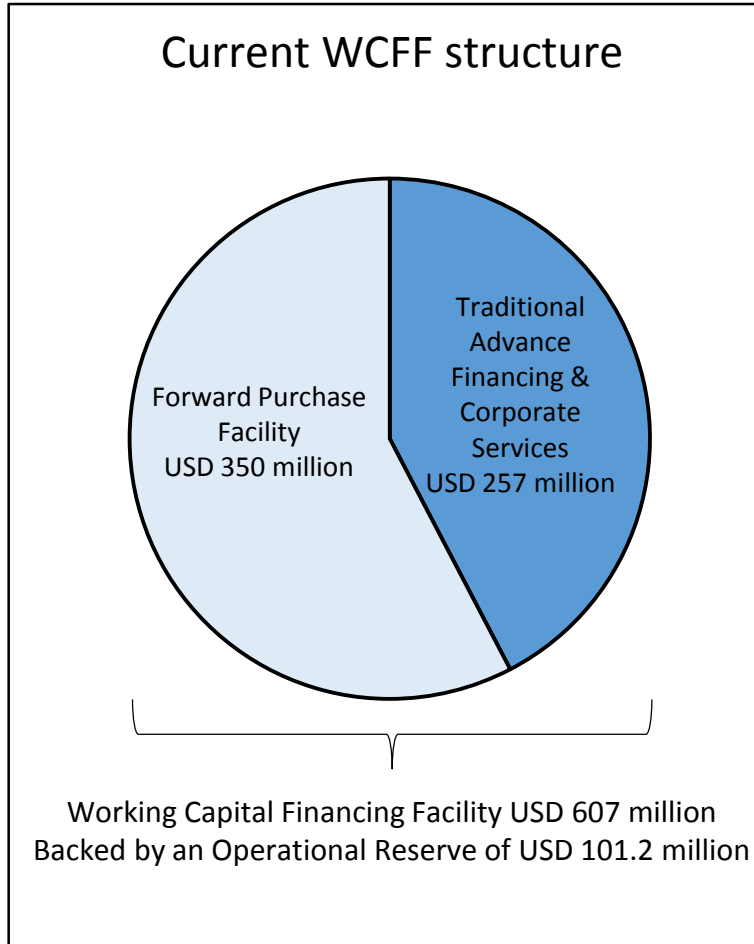**Average time between forecast and confirmation date is longer for medium and low probability**

Time from forecast to confirmation (days)
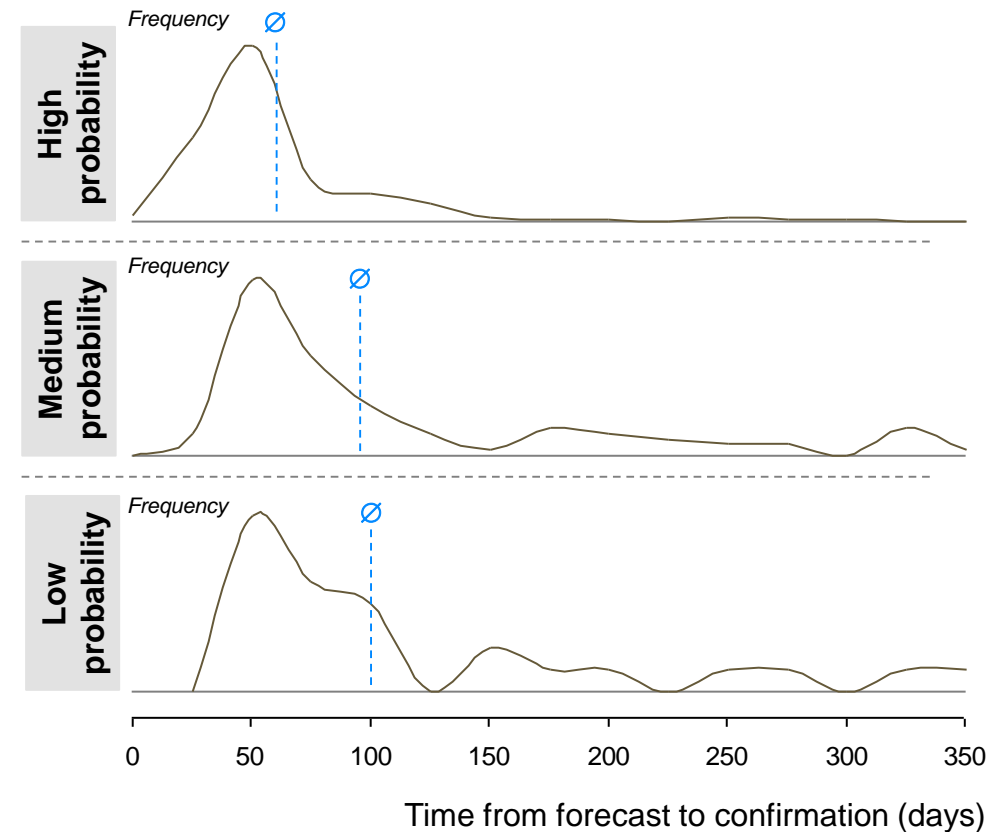
Source: WFP data (2013 forecasts), BCG analysis

∅ = average

Draft Decisions

Draft Decisions Complete Visual

Current WCFF structure

Forward Purchase Facility USD 350 million

Traditional Advance Financing & Corporate Services USD 257 million

Working Capital Financing Facility USD 607 million
Backed by an Operational Reserve of USD 101.2 million

Proposed structure: three facilities

Internal Project Lending USD 570 million

Global Commodity Management Facility USD 350 million

Corporate Services USD 70 million

Backed by an Operational Reserve of USD 95.2 million

Global Commodity Management Facility Reserve of USD 6 million

PSA equalization account as safety net of last resort

Proposed Changes to the Working Capital Financing Facility

Internal Project Lending
USD 570 million

Global Commodity Management Facility
USD 350 million

Corporate Services
USD 70 million

Backed by an Operational Reserve of USD 95.2 million

Global Commodity Management Facility Reserve of USD 6 million

PSA equalization account as safety net of last resort
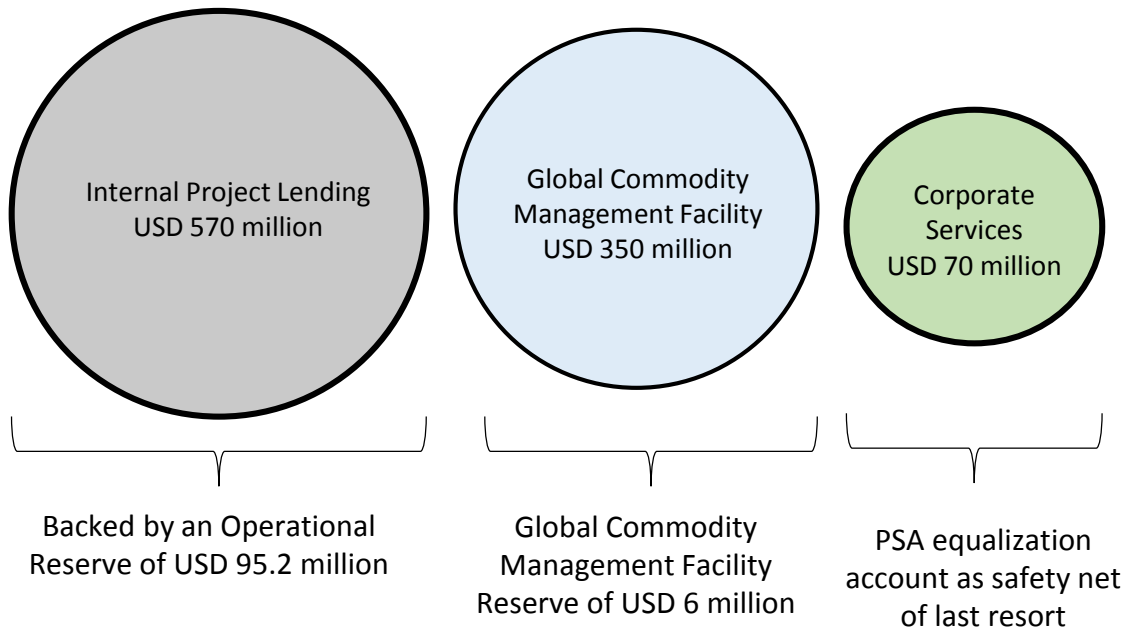
Draft Decisions:

- 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