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برنامج الأغذية العالمي

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For information

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

Report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions pertaining to WFP. The report covers the following agenda item:

- Increase of strategic financing authority ceilings (WFP/EB.1/2022/5-B/1)

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Advisory Committee on
Administrative and Budgetary Questions

10 December 2021

Dear Mr Beasley,

Please find attached a copy of the report of the Advisory Committee on your submission of the reports in the attached annex.

I should be grateful if you could arrange for the Advisory Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a copy of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Abdallah Bachar Bong
Chairman

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I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report on the increase of strategic financing authority ceilings of the World Food Programme (WFP) Secretariat, which is being submitted to the WFP Executive Board for approval by vote by correspondence prior to its annual session to take place in Rome, Italy, in February 2022. During the Advisory Committee's consideration of the reports, the WFP Secretariat provided additional information and clarification, concluding with written responses received on 29 November 2021.

II. Increase of strategic financing authority ceilings

2. The report indicates that the Executive Board is requested to approve increases in the authority ceilings for two facilities given the unprecedented acute food insecurity situation worldwide in a number of countries:
 - i) the Internal Project Lending facility, from USD 570 million to USD 760 million, while retaining an operational reserve at its current level of USD 95.2 million; and
 - ii) the Global Commodity Management Facility, from USD 660 million to USD 800 million, while retaining a Global Commodity Management Facility reserve of USD 6 million.
3. The report indicates that the Internal project lending (IPL) enables country offices to act immediately by receiving corporate spending authority prior to contributions being confirmed or received and that the Global Commodity Management Facility (GCMF) allows WFP to purchase and pre-position food commodities as part of its corporate working capital management, before the food inventories are transferred to country operations, thereby reducing lead times for food deliveries and allowing WFP to purchase food when market conditions are favourable.
4. Upon enquiry, the Advisory Committee was informed that by October 2021, due to escalation of several emergencies and the onset of the Afghanistan emergency, WFP's forecasts for new advance requests and repayments raised the possibility of exceeding the IPL ceiling by the end of November. As a stop gap measure, WFP provided advances in tranches as repayments are being made with confirmed contributions. The Committee was informed that this is less efficient and reduces the reliability of funding for the country offices, which is one of the key benefits of IPL. Furthermore, early in 2021, the GCMF allocation was fully utilized due to escalating emergencies in Ethiopia, Myanmar and Bangladesh which led to a request to increase the ceiling during the Executive Board's June annual session. Since then, the increased GCMF allocation has been fully utilized due to the emergency in Afghanistan, which absorbed the bulk of funds earmarked for unfolding emergencies.
5. The Committee was further informed that the increased authority ceilings for IPL and GCMF will enable WFP to provide the support necessary to meet expanding operational demands at the country level. With IPL, WFP will be able to advance more funds based on donor forecasts, which increases predictability in resource management for country office and stability in programme implementation, as implementation is not dependent on the confirmation of contributions or receipt of pledges. With GCMF, WFP will be able to expand the facility to support growing requirements to pre-position food in Asia, while maintaining an emergency envelope to respond to unfolding emergencies. The Committee was informed that with the current risk mitigation measures in place, no other practical implication is expected while maintaining the same level of reserves. The Committee notes the escalating emergencies and that it was informed that WFP's risk mitigation measures have thus far been effective (see paras 9 and 13 below).

Internal Project Lending facility

6. As regards the IPL, the report indicates that the current ceiling for this facility is USD 570 million and an operational reserve of USD 95.2 million, leveraged at a ratio of 6:1, provides a safety net in case of default on forecast contributions. The report indicates that as IPL allows country offices to spend before a contribution is confirmed, IPL has helped reduce the lead time of assisting beneficiaries by releasing the funds on average 48 days before donors' contributions were confirmed.
7. The report indicates that since October 2021, WFP has been witnessing a surge in requests for IPL due to escalating humanitarian demands and as of early November 2021, WFP's projected operational requirements have climbed to a record USD15.7 billion to reach an estimated 140.5 million beneficiaries, putting at risk the ability of the IPL facility to address country offices' requests for advance financing against WFP's estimated 2021 funding of USD 8.6 billion and 2022 funding of USD 8.4 billion. Management is therefore requesting the Board to increase the IPL spending authority ceiling to USD 760 million as a higher IPL ceiling would allow management to provide country offices with advance spending authority to respond to emergencies. The report also indicates that within this ceiling, management would manage the macro advance financing (MAF), a subset of IPL subject to the USD 570 million ceiling and backed by the same operational reserve, within a limit of USD 270 million.
8. As regards the previous increase in the ceiling, the report indicates that following the restructuring of the Working Capital Financing Facility, the Executive Board approved an increase in the IPL ceiling from USD 257 million to USD 570 million effective 1 January 2015. As a result, the IPL ceiling was equivalent to 11.4 percent of the funded programme of work for 2015. Table 1 of the report indicates the funded programme of work compared with the available financing for IPL from 2013 to 2021 and that in 2021, with a funding forecast of USD 8.6 billion, the IPL ceiling has dropped to 6.6 percent. The report also indicates that, in case of default on forecasted contributions, a safety net will remain as the operational reserve of USD 95.2 million and that with a ceiling of USD 760 million, the leverage ratio would increase from 6:1 to 8:1.
9. Upon enquiry, the Advisory Committee was informed that WFP's risk mitigation measures have been effective in maintaining a low level of write-offs to date, as the operational reserve of USD 95.2 million has been used only twice over the last sixteen years. The Committee was informed that a systematic approach is in place, including a robust forecasting process and strong trends analysis that are regularly captured in a corporate platform; WFP engages in continuous dialogue with donor governments to increase flexibility in grant validity periods so that incoming contributions can be used as collateral for advance financing, thus minimizing the possibility of default; and, the Boston Consulting Group's 2021 study, following the 2014 risk analysis, supports the proposed leverage ratio of 8:1 and reaffirmed that risk mitigation measures are robust and adequate.
10. The Committee was provided with the table below indicating the actual use of the IPL facility in 2019, 2020 and January – November 2021 and was informed that the proportion of IPL allocations compared to yearly confirmed contributions has increased from 15 per cent in 2015 to 17 per cent in 2020. In 2021 as of 29 November 2021, it had further increased to 21 per cent. The Committee was also informed that based on a similar trend for 2022, and with a forecast contribution of USD 8.4 billion, about USD 1.8 billion is expected to be allocated in 2022. **Taking into account the use of the facility and expenditure patterns, the Advisory Committee trusts that additional information and justification regarding the need for increasing the ceiling of the IPL facility be provided to the Board at the time of its consideration of the present report.**

Table 1: Internal Project Lending allocations (2019–2021)

Year	Month	Allocation (USD million)	Total for the year (USD million)
2019	Jan	97.2	1 814.2
	Feb	159.2	
	Mar	88.9	
	Apr	201.6	
	May	243.5	
	Jun	147.4	
	Jul	212.7	
	Aug	180.5	
	Sep	71.5	
	Oct	259.2	
	Nov	54.6	
	Dec	97.9	
2020	Jan	165.8	1 543.9
	Feb	126.6	
	Mar	237.2	
	Apr	175.1	
	May	146.5	
	Jun	113.7	
	Jul	84.0	
	Aug	121.4	
	Sep	103.5	
	Oct	35.6	
	Nov	164.4	
	Dec	70.1	
2021	Jan	239.9	1 841.5
	Feb	49.2	
	Mar	220.4	
	Apr	249.3	
	May	210.8	
	Jun	70.0	
	Jul	155.3	
	Aug	82.5	
	Sep	150.2	
	Oct	103.6	
	Nov	310.3	

11. The Committee was also provided with the table below indicating that in 2019 through 2021 (as of 29 November), the average time for repayment of IPL advances ranged from 49 days to 61 days. Furthermore, as WFP transitioned from a project budget structure to a country portfolio budget structure in 2017 and 2018 in connection with the financial framework review, the change to the budget structure presented challenges to retrieving data that are comparable across all five years.

Table 2: average time for repayment of IPL advances

Year	Turnover rate	Average time for repayment
2019	5.9	61
2020	7.4	49
2021 (YTD)	6.6	55

Global Commodity Management Facility

12. As regards the GCMF, the report indicates that in June 2021, the Board approved an increase in the ceiling from USD 560 million to USD 660 million to address increased requests for GCMF funds, and that despite this increase, the utilization of the facility has been on average over 90 percent and USD 100 million were allocated to escalating emergencies. WFP therefore proposes that the GCMF ceiling be increased to USD 800 million with the increase of USD 140 million allocated as follows: USD 80 million for unfolding emergencies; USD 50 million to support the Asia corridor; and, USD 10 million to further support operations in the Middle East. Paragraph 18 details the use of the USD 800 million.
13. The report also indicates that a reserve of USD 6 million is in place to cover any uninsured losses of GCMF procured food, the reserve has not been utilized in 10 years and the scope of self-insurance to cover commodity losses has expanded to further mitigate against GCMF losses. **The Advisory Committee recalls its observations in its report of 18 June 2021 (AC/2166, paras 38–40) regarding the increase in the GCMF ceiling from USD 560 million to USD 660 million in its related report (WFP/EB.A/2021/6-B/1) and notes that a further increase to the ceiling is being requested in the current report.**
14. As regards the warehousing and preservation of food commodities before transfer to country operations, the Committee was informed that strategic locations for storing GCMF food commodities have been identified and that as part of mitigation measures to minimize food losses, warehouses are adapted to local weather conditions with guidelines on, inter alia, contracting, transportation, storage and handling to assure food quality.
15. The Committee was provided with the following table indicating the actual use of the GCMF facility in 2019, 2020 and January – November 2021 and was informed for 2022, based on current operational requirements, GCMF purchases are forecasted to be valued at USD 1.74 billion. The Committee was also informed that GCMF purchases are transferred to operations periodically so that GCMF stockholding remains below the ceiling and with expanding operations in 2021 of USD 1.359 billion as of November, the GCMF ceiling is becoming a constraint for WFP's operations. **Taking into account the use of the facility and expenditure patterns, the Advisory Committee trusts that additional information and justification regarding the need for increasing the ceiling of the GCMF facility be provided to the Board at the time of its consideration of the present report.**

Table 3: Global Commodity Management Facility allocations (2019–2021)

Year	Month	Value of Country Office Purchases (USD million)	Yearly total (USD million)
2019	Jan	49.55	932.17
	Feb	88.64	
	Mar	105.45	
	Apr	89.43	
	May	67.87	
	Jun	74.34	
	Jul	110.23	
	Aug	96.61	
	Sep	63.7	
	Oct	59.19	
	Nov	74.42	
	Dec	52.74	
2020	Jan	78.67	942.79
	Feb	146.28	
	Mar	76.92	
	Apr	84.86	
	May	50.86	
	Jun	47.73	
	Jul	28.9	
	Aug	45.89	
	Sep	97.26	
	Oct	132.23	
	Nov	68.48	
	Dec	84.71	
2021	Jan	126.66	1 359.24
	Feb	77.83	
	Mar	216.47	
	Apr	143.2	
	May	140.21	
	Jun	94.73	
	Jul	110.31	
	Aug	120.04	
	Sep	161.73	
	Oct	82.55	
	Nov	85.51	

16. The Committee was also provided with the following tables indicating the turnover rate from 2017 through 2021 (as of 29 November) and was informed that the cash-to-cash cycle, i.e. the time between purchase of food by GCMF and purchase of food from GCMF by country offices, has increased since 2017 and is driven by a combination of longer delivery lead times and the strategy of purchasing food when market conditions are more favourable.

Table 4: cash to cash cycle

Year	GCMF cash-to-cash cycle (months)
2017	4.2
2018	4.4
2019	5.1
2020	5.1
2021	5.7

Table 5: GCMF turnover rates

Year	Turnover rate
2016	
2017	3.8
2018	3.4
2019	2.7
2020	2.4
2021 (YTD)	2.6

Reserves

17. As regards WFP reserves, the Committee was informed that WFP established reserves as facilities for funding and/or financing specific activities under specific circumstances and that cross borrowing between reserves is not permitted. Funds in reserves are managed as part of the WFP Liquidity Portfolio and short-term funds are invested either in an AAA-rated USD denominated money market fund or by external professional asset managers adhering to the WFP Liquidity Portfolio Investment Policy and guidelines. The Committee was also informed that, unlike other United Nations agencies, WFP does not have a Working Capital Fund and that the Working Capital Financial Facility was established in 2005 as WFP's internal advance financing facility (see para 8 above). Currently, WFP has four active reserves: Operational reserve; Global Commodity Management Facility reserve; Immediate Response Account; and, Programme Support and Administration Equalization Account.

18. The Advisory Committee recalls that it was provided with information regarding trends in revenue, expenses and surplus/(deficit) from 2010 to 2020 and that WFP held an amount of USD 411 million in reserves in 2020 (see table 1, AC/2166). **The Advisory Committee notes the limited information in the report regarding the status of reserves and recommends that additional information regarding the pattern of reserves and related expenditures be provided to the Board in future WFP reports.**
19. **Subject to its observations above, the Advisory Committee has no objections for the consideration of the increase of the authority ceilings for two facilities given the unprecedented acute food insecurity situation worldwide in a number of countries.**