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FINANCE COMMITTEE

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Financial Framework Review

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- Following the implementation of the previous phase of the Financial Framework Review in November 2013, WFP's financial structure now supports the range of food assistance tools implemented by the organization: food, cash and voucher transfers, and capacity development. The next phase of the Financial Framework Review (2014–2016) is a continuation of WFP's efforts to shape financial systems that are 'Fit for Purpose' and aligned to WFP's operational requirements. The review will focus on three components that seek to: i) increase predictability of resources; ii) improve flexibility through a review of WFP's funds management structure; and iii) improve accountability of planning and cost management.
- In connection with the first component of the Financial Framework Review, the document reviews the current structure of the Working Capital Financing Facility. This was established in 2005 to advance funds to operations on the basis of forecasted contributions and reduce the time for food assistance to reach beneficiaries. Over the years, the scope of the Working Capital Financing Facility has been expanded, and it currently supports three distinct financing instruments: i) internal lending for project operations through Traditional Advance Financing; ii) Global Commodity Management through the Forward Purchase Facility; and iii) corporate services financing.
- The current ceiling of the Working Capital Financing Facility is USD 607 million, and to mitigate risks it is backed by the operational reserve of USD 101 million (i.e. through a leverage factor of 6 to 1). As such, Traditional Advance Financing for projects and corporate services currently have a combined ceiling of USD 257 million, while the Forward Purchase Facility has a ceiling of USD 350 million.
- High demand for operational advances presents additional urgency for the review and proposed restructuring of WFP's Working Capital Financing Facility. During the past 12 months, WFP had responded to multiple Level 3 Corporate Emergencies, including the Syrian crisis, the Philippines typhoon response, and emergency relief for conflict-affected populations in South Sudan and Central African Republic. The current structure fails to provide the sufficient flexibility required for WFP to respond efficiently and effectively to new emergencies and other operations within the annual programme of work.
- In order to maximize the utilization and efficiency of advance financing instruments, the Secretariat proposes to separate the Forward Purchase Facility (to be renamed Global Commodity Management Facility) and advances for corporate services from the Working Capital Financing Facility. Moreover, funds used for forward purchase of commodities involve minimal risk as the action entails an asset swap from cash to food commodities. Corporate services financing is also backed by assets or utilizes a repayment scheme and has minimal associated risks. The Secretariat proposes that a small reserve be established to manage unforeseen losses from forward purchasing which cannot be covered by insurance, and to use the Programme Support and Administrative Equalization Account as a safety net of last resort for extraordinary losses incurred through corporate services financing.
- Segregation of these instruments will preserve WFP's low-risk approach to working capital management. Proposed revisions to the Working Capital Financing Facility and the operational reserve will also increase the level of transparency of each of the underlying financial instruments, and increase the organization's capabilities to extend project lending.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to take note of WFP's Financial Framework Review document and recommend it for approval by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decisions as outlined in the document "Financial Framework Review".**