

May 2012

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## FINANCE COMMITTEE

**Hundred and Forty-fourth Session**

**Rome, 14 – 15 May 2012**

**Forward Purchase Facility**

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

**Mr Sean O'Brien**

**Officer in Charge of the Resource Management and Accountability Department  
and Acting Chief Financial Officer**

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### EXECUTIVE SUMMARY

- Advance financing mechanisms improve WFP's operational effectiveness and efficiency, particularly on-time delivery of food to beneficiaries. They are now part of WFP's everyday business, providing funding in anticipation of donor contributions and thereby reducing the delay between identification of a requirement and confirmation of a contribution.
- WFP's two internal advance financing mechanisms are the Immediate Response Account and the Working Capital Financing Facility, which provides funds for traditional advance financing, corporate initiatives and enables operations of the Forward Purchase Facility special account.
- After the successful pilot of the Forward Purchase Facility, the Canadian International Development Agency provided essential support for non-cereal food purchases and capacity development, and the Board approved up to US\$150 million from the Working Capital Financing Facility for the special account.<sup>1</sup> On the basis of lessons learned, the Forward Purchase Facility adopted a more strategic global aggregated-demand approach to forward planning and purchasing and expanded in the latter half of 2011 to include greater quantities of non-cereal foods, wider geographic coverage and allow for local sourcing in developing markets.
- The Forward Purchase Facility launched a supply line to East Africa in July 2011 and another to West Africa in December 2011, using WFP's corporate food stocks, to enhance its emergency response in the Horn of Africa and the Sahel. Initial findings indicate that country offices have, on average, gained 56 days of supply lead-time.<sup>2</sup>
- With the establishment of these supply lines, the Forward Purchase Facility is utilizing US\$147.5 million – 98 percent – of the amount allocated for the procurement of corporate food stocks. Operating at this level of capacity has limited further expansion: the Secretariat therefore proposes to increase the allocation from the Working Capital Financing Facility from US\$150 million to US\$300 million, which is within the approved Working Capital Financing Facility budget ceiling of US\$557 million. This will reduce the amount available for traditional advance financing from US\$407 million to US\$257 million, but increasing the availability of funding for the Forward Purchase Facility special account will enable WFP to respond to increasing demands, enhance operational efficiency and reduce response times. Traditional advance financing would not be affected.
- The Working Capital Financing Facility has grown since 2004: improved resource forecasting and greater donor flexibility have ensured that advances to projects are backed by forecast contributions and quickly repaid. Country offices served by the supply lines will require less advance financing because of gains in supply lead-times and the fact that expected country requirements are considered within the forward planning and purchasing process. With the proposed US\$257 million ceiling, the facility will continue to make loans to operations and corporate services on the basis of forecast income. The leverage for advance financing would remain at 6:1, and the Working Capital Financing Facility would continue to be backed by the US\$92.9 million advance financing reserve.

<sup>1</sup> "Review of the Working Capital Financing Facility" (WFP/EB.2/2010/5-B/1).

<sup>2</sup> Supply lead-time is the time between the start of the corporate purchase process and release by the country office of the purchase request.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to note WFP's Forward Purchase Facility 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 “Forward Purchase Facility”.**

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de Alimentos

**Executive Board  
Annual Session**

**Rome, 4–8 June 2012**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For approval*



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4 May 2012  
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## **FORWARD PURCHASE FACILITY**



This document is printed in a limited number of copies. Executive Board documents are available on WFP's Website (<http://executiveboard.wfp.org>).

## NOTE TO THE EXECUTIVE BOARD

### **This document is submitted to the Executive Board for approval**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Acting Chief Financial Officer and Officer in Charge, RM\*: Mr S. O'Brien tel.: 066513-2682

Chief, RMBB\*\*: Mr G. Crisci tel.: 066513-2704

Chief, RMBP\*\*\*: Mr L. Bukera tel.: 066513-2074

Should you have any questions regarding availability of documentation for the Executive Board, please contact Ms I. Carpitella, Senior Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

- Resource Management and Accountability Department
- \*\* Organizational Budgeting Service
- \*\*\* Programming Service

## EXECUTIVE SUMMARY

Advance financing mechanisms improve WFP's operational effectiveness and efficiency, particularly on-time delivery of food to beneficiaries. They are now part of WFP's everyday business, providing funding in anticipation of donor contributions and thereby reducing the delay between identification of a requirement and confirmation of a contribution.

WFP's two internal advance financing mechanisms are the Immediate Response Account and the Working Capital Financing Facility, which provides funds for traditional advance financing, corporate initiatives and enables operations of the Forward Purchase Facility special account.

After the successful pilot of the Forward Purchase Facility, the Canadian International Development Agency provided essential support for non-cereal food purchases and capacity development, and the Board approved up to US\$150 million from the Working Capital Financing Facility for the special account.<sup>1</sup> On the basis of lessons learned, the Forward Purchase Facility adopted a more strategic global aggregated-demand approach to forward planning and purchasing and expanded in the latter half of 2011 to include greater quantities of non-cereal foods, wider geographic coverage and allow for local sourcing in developing markets.

The Forward Purchase Facility launched a supply line to East Africa in July 2011 and another to West Africa in December 2011, using WFP's corporate food stocks, to enhance its emergency response in the Horn of Africa and the Sahel. Initial findings indicate that country offices have, on average, gained 56 days of supply lead-time.<sup>2</sup>

With the establishment of these supply lines, the Forward Purchase Facility is utilizing US\$147.5 million – 98 percent – of the amount allocated for the procurement of corporate food stocks. Operating at this level of capacity has limited further expansion: the Secretariat therefore proposes to increase the allocation from the Working Capital Financing Facility from US\$150 million to US\$300 million, which is within the approved Working Capital Financing Facility budget ceiling of US\$557 million. This will reduce the amount available for traditional advance financing from US\$407 million to US\$257 million, but increasing the availability of funding for the Forward Purchase Facility special account will enable WFP to respond to increasing demands, enhance operational efficiency and reduce response times. Traditional advance financing would not be affected.

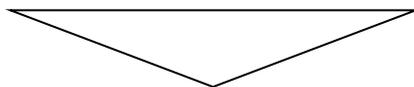
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<sup>1</sup> "Review of the Working Capital Financing Facility" (WFP/EB.2/2010/5-B/1).

<sup>2</sup> Supply lead-time is the time between the start of the corporate purchase process and release by the country office of the purchase request.

The Working Capital Financing Facility has grown since 2004: improved resource forecasting and greater donor flexibility have ensured that advances to projects are backed by forecast contributions and quickly repaid. Country offices served by the supply lines will require less advance financing because of gains in supply lead-times and the fact that expected country requirements are considered within the forward planning and purchasing process. With the proposed US\$257 million ceiling, the Facility will continue to make loans to operations and corporate services on the basis of forecast income. The leverage for advance financing would remain at 6:1, and the Working Capital Financing Facility would continue to be backed by the US\$92.9 million advance financing reserve.

## 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.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

## INTRODUCTION

1. WFP's income consists of voluntary donations, 90 percent of which are directed to particular operations in response to humanitarian needs. Under this funding model, WFP has adopted operating procedures whereby food purchase orders are placed after a contribution is confirmed for a project.
2. In view of the time lag between identifying operational needs and the confirmation of donors' contributions, advance financing tools – the Immediate Response Account (IRA) and Working Capital Financing Facility (WCFF) – were developed to enable WFP to fund projects in advance of confirmed contributions and ensure on-time delivery of food to beneficiaries.
3. The Forward Purchase Facility (FPF) was established as a special account financed through WCFF. It enables WFP to purchase foods most commonly distributed in a region or corridor in anticipation of requests from projects. The global aggregated-demand plan is based on country offices' needs and shortfall projections, which are aggregated at the regional level. To minimize organizational risk, the plan takes into consideration the resourcing trends and projections of individual projects.
4. The Secretariat seeks the Board's approval to increase the allocation to the FPF special account from US\$150 million to US\$300 million, within the WCFF ceiling of US\$557 million. This will address the increasing operational demands on FPF, and will hence reduce the amount available for traditional advance financing.

## BACKGROUND

5. Advance financing tools enable WFP to provide immediate emergency funds through the IRA or to advance funds to a project using forecast contributions as collateral under WCF. Once a forecast contribution is confirmed, the project repays the advance. This enables country offices to reduce the time between a donor's expression of interest in contributing to an operation and the delivery of food to beneficiaries.

| TABLE 1: WFP'S ADVANCE FINANCING FACILITIES |                           |                                                                                                |
|---------------------------------------------|---------------------------|------------------------------------------------------------------------------------------------|
|                                             | Ceiling<br>(US\$ million) | Description                                                                                    |
| IRA                                         | 70                        | Funds available for immediate disbursement for emergencies and pipeline breaks                 |
| WCFF                                        | 557                       |                                                                                                |
|                                             | Traditional 407           | Funds available for operations before confirmation of contributions and for corporate services |
|                                             | FPF special account 150   | Funds available for food purchases on the basis of aggregated needs                            |

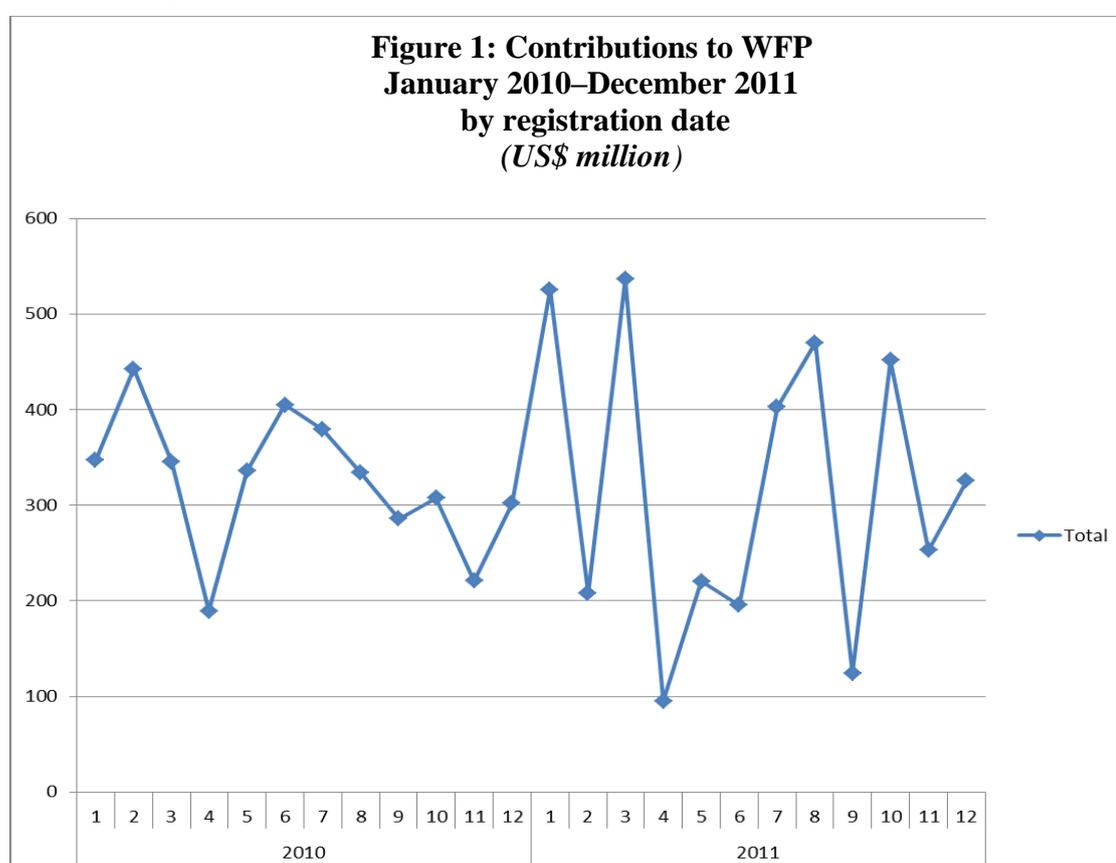
### Immediate Response Account

6. The IRA was established in December 1991; its original target level of US\$30 million was increased to US\$70 million in 2004. It is a flexible, replenishable, revolving multilateral funding mechanism that enables WFP to provide immediate food, non-food items and logistics assistance in life-threatening situations.

7. The IRA is also used as a non-recourse lending facility in that advances can in certain circumstances result in non-repayable loans. Because of this difference from WCFF, the proposal in this document focuses on WCFF and FPF but does not affect the IRA.

### Traditional Advance Financing

8. The WCFF provides advance funding for projects and corporate services using forecast income as collateral and enables operation of the FPF special account.
9. To keep pace with increasing demand, the Board approved an increase of the WCFF ceiling from US\$180 million to US\$557 million in November 2010; this was backed by a US\$92.9 million advance financing reserve with a leverage of 6:1. This increase enabled WFP to: i) increase the amount available for traditional advance financing; ii) increase the special account allotment for FPF; and iii) provide stable funding for corporate services.
10. Because WFP is a voluntarily funded organization, it is difficult to predict the timing and amount of contributions in that monthly resourcing is neither consistent nor stable, as illustrated in Figure 1.

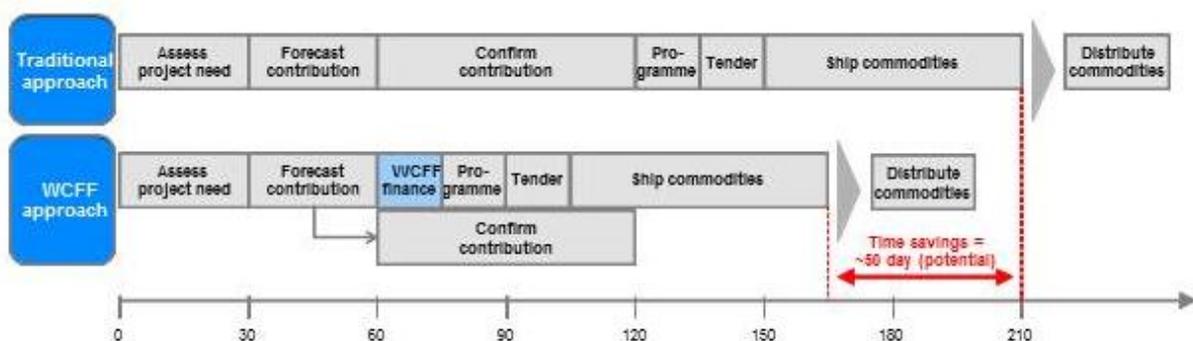


11. Since its inception in 2004 the WCFF facility has grown in line with WFP's operations, which doubled in the same time period. Advance financing has become crucial for stabilizing operational funding and implementing WFP's rapid interventions.
12. The value of advance financing through the WCFF facility increased from US\$27.1 million in 2004 to US\$439 million in 2011. In the same period, US\$1.96 billion was advanced to 197 operations to buy 1.7 million metric tons (mt) of food to assist 78 million beneficiaries in 67 countries. The average savings was 57 days.

| Year         | Number of loans | Total amount advanced (US\$ million) | Average loan amount (US\$ million) |
|--------------|-----------------|--------------------------------------|------------------------------------|
| 2004         | 5               | 27.1                                 | 5.4                                |
| 2005         | 10              | 154.5                                | 15.4                               |
| 2006         | 4               | 36.8                                 | 9.2                                |
| 2007         | 21              | 157.3                                | 7.5                                |
| 2008*        | 58              | 324.6                                | 5.6                                |
| 2009         | 35              | 227.1                                | 6.5                                |
| 2010         | 62              | 418.8                                | 6.8                                |
| 2011*        | 64              | 439.1                                | 6.9                                |
| <b>TOTAL</b> | <b>259</b>      | <b>1 785.1</b>                       | <b>6.9</b>                         |

\*FPF special account established in June 2008 with an initial allocation of up to US\$60 million. In 2011, the WCFF allocated up to US\$150 million to the FPF special account.

**Figure 2: Estimated time savings under the WCFF facility**



13. The advance financing mechanisms can respond to unexpected needs such as special operations, typically within 72 hours of a request. The WCFF is particularly effective during project start-up for covering immediate costs and for advance financing for corporate services such as the Global Vehicle Leasing Pool.
14. Up-front WCFF funding facilitated timely responses to the flooding in Pakistan, drought in the Horn of Africa and famine in Somalia, prevented pipeline breaks in life-saving operations in Chad, Kenya and Niger, and enabled WFP to pre-position food in the Sudan before the rainy season.

### Forward Purchase Facility

15. In 2008, WFP allocated US\$60 million from the WCFF facility to a special account for a pilot project to explore the potential of forward purchases. To enable WFP to prove the concept, the pilot focused on procurement and improving the efficiency and effectiveness of responses to beneficiary needs. Between June 2008 and July 2010, 440,000 mt of cereals and a small quantity of pulses, valued at US\$128 million, were purchased.

16. In September 2010, the Canadian International Development Agency (CIDA) provided a grant of CAD20 million in support of FPF, which was crucial in enabling WFP to expand the pilot to include non-cereal foods, develop capacity to procure locally in countries with surplus production and enhance corporate capacities.
17. In view of the efficiencies and benefits observed during the pilot, the Board approved an increased allocation of US\$150 million from WCFE to the FPF special account in November 2010 for development of the forward planning and purchasing approach.

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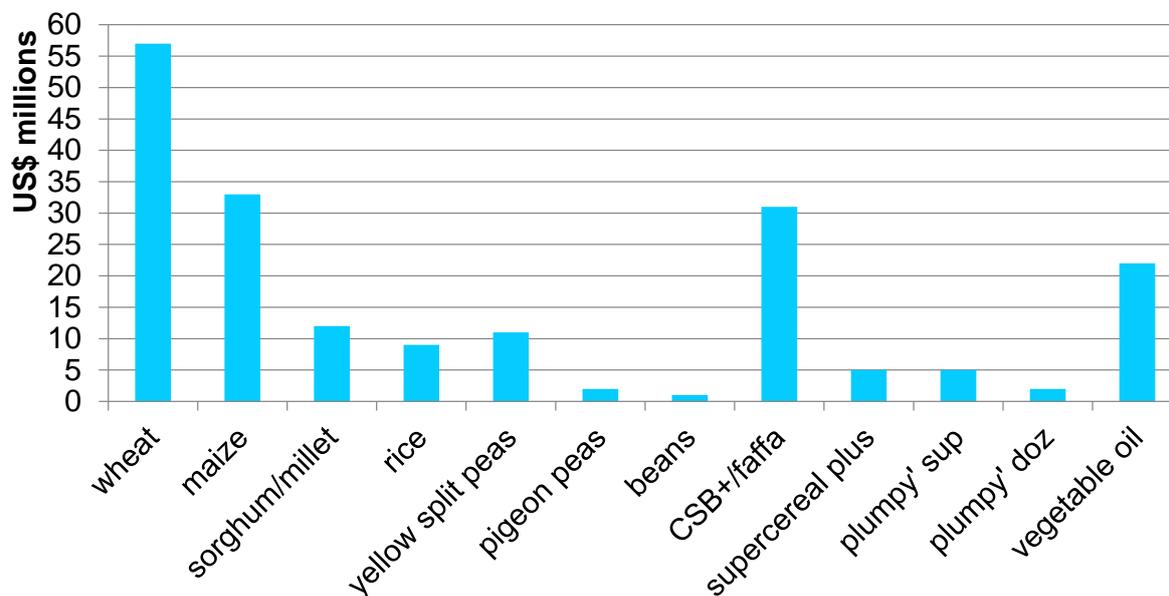
## LAUNCH OF FORWARD PLANNING AND PURCHASING IN 2011

18. Following the Canadian investment and the Board's approval of the increased FPF allocation, key functional groups within WFP formed the Advisory Group on Forward Purchase to guide the Chief Financial Officer in the expansion of FPF to additional supply corridors and to include greater quantities of non-cereal foods and nutritious products in WFP's corporate stocks.
19. The objectives of the FPF are to:
  - reduce supply lead-times;
  - improve timeliness of food deliveries;
  - procure food at advantageous times, in developing countries where possible; and
  - reduce response times, particularly in emergencies.
20. Additional benefits may include cost savings through economies of scale and exploitation of opportunities and stimulation of processed food production capacities.
21. The advisory group recommended that the forward planning and purchasing approach become an integral part of WFP's supply chain. This entailed moving from the approach employed during the pilot phase, which largely focused on one-off purchases, to a strategic, organization-wide, demand-driven approach to purchasing food in advance of requests from individual projects.
22. When this was endorsed by the Executive Management Council in July 2011, FPF launched an initial US\$80 million tranche for forward purchasing to supply lines serving East Africa. This coincided with the emergency in the Horn of Africa and was critical in WFP's rapid response and the predictability of supplies. In the next six months FPF stocks were rotated three times, resulting in the procurement of 435,000 mt of food valued at US\$213 million.
23. In December 2011, supply lines to West Africa were launched to respond to the developing Sahel crisis. The FPF stock was completely rotated in the first three months. Country offices purchased 59,541 mt from FPF stocks valued at US\$40.2 million; this included large quantities of ready-to-use-supplementary foods (RUSF) such as SuperCereal Plus, Plumpy'doz and Plumpy'sup.
24. The active supply corridors were established with food requisitions reaching 673,000 mt. By 20 February 2012, 533,000 mt – 80 percent of the amount requested – had been procured, including 19,000 mt of nutritious food products; 468,000 mt – 90 percent of the food procured – had been purchased by projects. Initial findings indicate country offices purchasing food from FPF stocks have gained, on average, 56 days of supply lead-time. Supply lead-time is calculated from the beginning of the corporate procurement process to the point when the country office issues a purchase request.

25. Table 3 and Figure 3 set out FPF facts and figures to date.

| <b>TABLE 3: FORWARD PURCHASE: FACTS AND FIGURES<br/>(AS OF 20 FEBRUARY 2012)</b> |            |                 |
|----------------------------------------------------------------------------------|------------|-----------------|
| FPF purchase requisitions                                                        | 673 000 mt | US\$314 million |
| Total amount procured                                                            | 533 000 mt | US\$229 million |
| Sold to projects                                                                 | 468 000 mt | US\$190 million |
| Projects involved                                                                | 29         |                 |
| Average supply lead-time gain                                                    | 56 days    |                 |

**Figure 3: US\$190 million in Sales to Project, by Food Type (as of 20 February 2012)**



### Pre-Positioning of Corporate Stocks

26. To enhance WFP's readiness and emergency response capability, and to augment its existing stock of high-energy biscuits, CIDA funds are being used through the FPF to procure and strategically stock new nutritious products in the temperature-controlled facilities of the United Nations Humanitarian Response Depots (UNHRDs) in Brindisi and Dubai, where they are held until requested by country offices with urgent needs and confirmed contributions. In a context of limited production capacities among suppliers, FPF enables WFP to place maximum orders for these nutritious products to guarantee supplies in advance of the growing demand and anticipated requests from individual country offices. As one example, a forward contract with SuperCereal Plus suppliers is in place through the FPF to guarantee delivery of 1,000 mt of SuperCereal Plus within seven days of a call-forward by WFP in an emergency.
27. To build on the experience gained from stocking RUSF in UNHRD and to further improve supply-chain predictability, with an increased allocation the FPF could evolve to include revolving stock. The monitoring and reviewing of the types, quantity and location of items held as revolving physical stocks would be managed through the FPF. Stocks would be released to country offices following a confirmed contribution to a specific operation.

28. In regions with frequent shocks, pre-positioning revolving stocks of RUSF and other foods will increase WFP's emergency preparedness and compensate for pipeline gaps caused by factors outside WFP's control. This would complement FPF supply lines, which will move more food to meet the aggregated demand.

### **Internal Business Processes and Systems**

29. With the rapid scaling up of FPF and the increasing number of transactions, interim business processes are labour-intensive. Parallel to the FPF expansion, a technical working group is reviewing internal business processes and current constraints and defining business requirements with a view to aligning WINGS II to the new FPF business processes, thereby enhancing the transparency, accountability, traceability and visibility of FPF transactions and enabling reporting on performance indicators. The guiding principles are to design business processes around SAP functionalities and to maintain or complement existing processes and current WINGS II solutions.
30. The FPF business procedures will be embedded in WFP's system by the first quarter of 2013.

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### **CONSTRAINT ON THE FORWARD PURCHASE FACILITY**

31. With two supply lines serving East Africa and West Africa and purchases of SuperCereal and RUSF, the FPF special account is currently utilizing US\$147.5 million, limiting further expansion of the FPF or an increase in volume through the existing lines. The high level of utilization led the Secretariat to consider whether the allocation of US\$150 million from the WCFE was adequate for the expansion and operation of FPF. This resulted in a review of FPF activities and led to a proposal to enable expansion, as outlined in the next section.

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### **EXPANSION OF FORWARD PURCHASING IN 2012**

32. Establishment of the supply lines to East Africa and West Africa resulted in an average supply lead-time gain of 56 days; the WFP average is four months, effectively halving the normal gap between funding becoming available and the arrival of food at ports. The Board paper "Efficiency at WFP" also noted the potential for even greater time savings under FPF.<sup>3</sup>
33. Inventories purchased through the FPF are typically sold to projects while the food is in transit to ports. When a sale is recorded in the FPF special account, funding is revolved to initiate a subsequent purchase requisition for the supply line.
34. To achieve the objectives and efficiencies of FPF, supply lines must provide a continuous stream of food for projects to purchase with the funding available. As shown in Figure 4, this would require the launch in September of the first tranche of food to meet three months of projected demand<sup>4</sup> for a consolidated supply line to offer a maximum supply lead-time gain of four months. Projects will purchase the food they need directly from FPF at the first entry point on the corridor. To maintain the supply line, two additional months of food will also be purchased so that WFP will have three months of stocks available at any time.

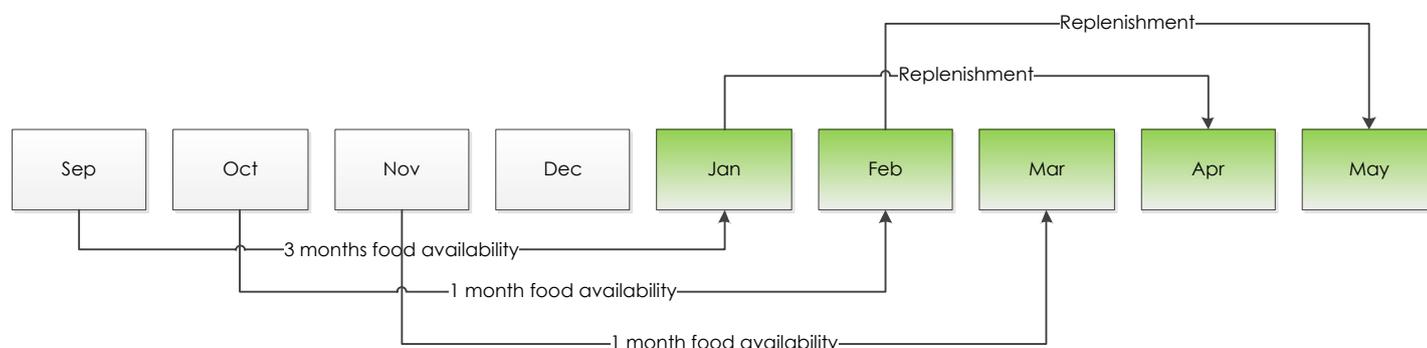
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<sup>3</sup> "Efficiency at WFP"(WFP/EB.2/2011/5-E/1).

<sup>4</sup> See Table 4.

35. Replenishment would then start on a monthly rolling basis at the end of January, utilizing the revenue generated in the special account. The flexibility of forward planning and purchasing enables the Secretariat to start new purchases of food on the basis of anticipated needs, thereby achieving maximum supply lead-time gains.

**Figure 4: Proposed process for continuous supply lines**



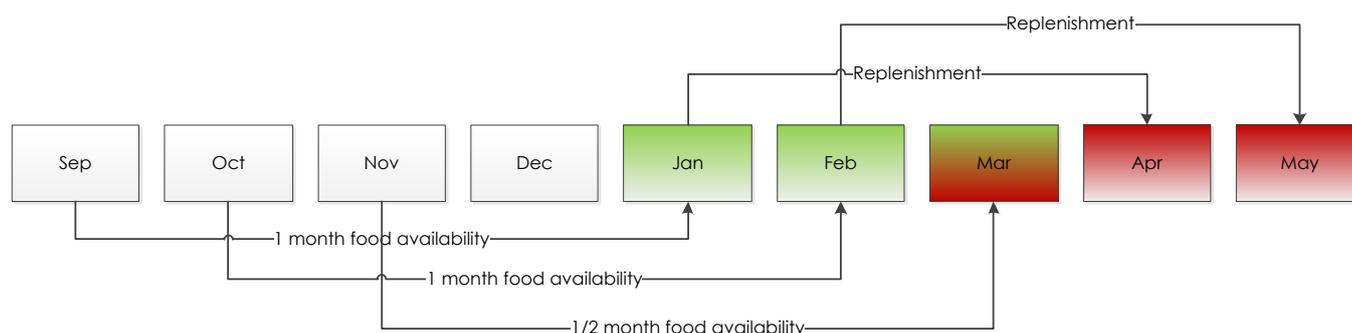
36. To determine an appropriate level of rolling corporate food stocks, the Secretariat updated the figure of 4.4 million mt of food requirements in the Management Plan (2012–2014) in light of the latest projected requirements from West Africa and the Sahel.
37. The second projection concerns resourcing. In-kind contributions, resource gaps and forecast cash contributions were considered to determine a realistic tonnage for procurement through FPF. This target was determined as an average of projected requirements based on cash resourcing trends and projected requirements based on forecast cash contributions.
38. With these considerations in mind, it is projected that in 2012 WFP could procure 1.5 million mt of food valued at US\$755 million through the forward planning and purchasing approach, with a minimum level of risk. Over the next two years existing supply lines and their potential gain from the FPF will continue to be evaluated and strengthened to allow for a progressive scale-up to meet the large-scale target (see Table 4).

| <b>TABLE 4: INITIAL ANNUAL MINIMUM TARGET FOR FORWARD PURCHASING*</b> |                                              |                                                        |                                              |                                                                          |
|-----------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------|
| <b>Food type</b>                                                      | <b>Annual planned food requirements (mt)</b> | <b>Annual planned food requirements (US\$ million)</b> | <b>Annual forward purchasing target (mt)</b> | <b>Annual forward purchasing target – food value only (US\$ million)</b> |
| Cereals                                                               | 3 477 000                                    | 1 273                                                  | 1 130 000                                    | 416                                                                      |
| Pulses                                                                | 457 000                                      | 231                                                    | 147 000                                      | 74                                                                       |
| Mixed and blended                                                     | 514 000                                      | 472                                                    | 160 000                                      | 148                                                                      |
| Oil and fats                                                          | 246 000                                      | 286                                                    | 78 000                                       | 90                                                                       |
| Other                                                                 | 93 000                                       | 82                                                     | 32 000                                       | 28                                                                       |
| <b>TOTAL</b>                                                          | <b>4 786 000</b>                             | <b>2 343</b>                                           | <b>1 545 822</b>                             | <b>755</b>                                                               |

\*Annual figures are based on the approved Management Plan (2012–2014) and have been adjusted to reflect the latest projected requirements arising from unforeseen emergencies.

39. The 2012 forward purchasing target of US\$755 million would require US\$60 million per month to meet projected food requirements. To ensure that stocks can meet the requirements of country offices, particularly in unforeseen emergencies, a purchase requisition for food to cover needs for three months, which will require US\$180 million, should be launched in September to ensure that two or three months of supply will be available in January. This estimate assumes a four-month lead-time for procurement and transport.
40. To maintain continuity in the supply line and maximize the benefits for projects, two additional months of food stocks costing US\$60 million per month would be purchased in advance to meet demand in April and May, with delivery starting by the beginning of March. Under the aggregated-demand approach, purchases may be increased or decreased in line with the needs of the original supply line or other active supply lines.
41. Figure 5 shows that the current US\$150 million FPF ceiling would only be sufficient to purchase food for two and half months of planned needs at the US\$60 million monthly figure. In this scenario, FPF would not be capable of replenishing the supply line in time to respond to needs in March and April, and the maximum efficiency gains would not be achieved.

**Figure 5: Proposed process under US\$150 million allocation**



42. In view of this analysis, the Secretariat proposes to increase the allocation to the FPF special account to US\$300 million within the current WCFF ceiling of US\$557 million.

## IMPACT ON TRADITIONAL ADVANCE FINANCING

43. Traditional advance financing will not be seriously affected by the reapportionment of the US\$557 million in WCFF. Use of the mechanism has grown significantly since 2004, but improved resource forecasting and greater donor flexibility have ensured that advances to projects are backed with high to medium forecast contributions and are quickly repaid. In addition, the supply lead-time gains and the anticipation of country's requirements built into the forward planning and purchasing will reduce the level of advance financing required by country offices served by the operating supply lines.
44. With the proposed reduced ceiling of US\$257 million, WCFF will still be able to make loans to individual operations and to corporate services on the basis of forecast income. The conservative loan ratio of 6:1 would be maintained against the advance financing reserve.

## ANTICIPATED BENEFITS OF EXPANDED FORWARD PURCHASE FACILITY

45. An increased FPF ceiling constitutes an opportunity to mainstream the demand-driven approach and enable WFP to achieve objectives such as:
- i) consolidating supply lines and establishing new ones;
  - ii) reducing supply lead-times;
  - iii) improving the timeliness of food deliveries to beneficiaries;
  - iv) purchasing food at advantageous times; and
  - v) minimizing shipping costs.

## RISK MITIGATION MEASURES

46. To develop the aggregated demand plan, the Secretariat analyses historical demand, distributions, procurement, resourcing trends, projections and needs, along with shortfall projections made by country offices. The analysis identifies risks associated with the FPF, for which the Executive Management Council has endorsed these mitigation measures:
- *Risk: Prices may decline after purchase.*
    - ◇ Market opportunities, trends, and other factors are analysed before purchases are made through the FPF.
    - ◇ Available corporate FPF stocks are prioritized over purchases of similar commodities.
  - *Risk: Funding may not materialize.*
    - ◇ Historical trends and forecast contributions with high or medium probability of materializing are taken into account when measuring risk.
    - ◇ The type of food purchased may be distributed in many countries.
    - ◇ Purchases may be redirected to alternative supply lines.
  - *Risk: Food may be damaged, spoiled or lost.*
    - ◇ Food is insured.
  - *Risk: Donor conditions such as bag marking requirements, purchase location or contribution validity dates restrict the use of the FPF and increase associated costs.*
    - ◇ Innovative tagging solutions are developed for providing donor visibility.
    - ◇ Constraints are communicated to donors and viable work-around solutions are developed.

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## ACRONYMS USED IN THE DOCUMENT

|          |                                              |
|----------|----------------------------------------------|
| CIDA     | Canadian International Development Agency    |
| FPF      | Forward Purchase Facility                    |
| IRA      | Immediate Response Account                   |
| RUSF     | ready-to-use-supplementary foods             |
| UNHRD    | United nations Humanitarian Response Depot   |
| WCFE     | Working Capital Financing Facility           |
| WINGS II | WFP Information Network and Global System II |