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# FINANCE COMMITTEE

**Hundred and Eighty-ninth Session**

**17 December 2021**

**Increase of strategic financing authority ceilings**

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

**Mr Manoj Juneja**  
**Chief Financial Officer and Assistant Executive Director**  
**Resource Management Department**  
**World Food Programme**  
**Email: manoj.juneja@wfp.org**

### EXECUTIVE SUMMARY

- WFP is funded entirely by voluntary contributions. However, sometimes contributions for specific activities are not yet confirmed by donors when assistance is required by people in need. In such cases, WFP relies on strategic financing mechanisms such as internal project lending (IPL) and the Global Commodity Management Facility (GCMF).
- IPL enables country offices to act immediately by receiving corporate spending authority prior to contributions being confirmed or received while the GCMF enables WFP to purchase and pre-position food commodities before transfer to country operations.
- Due to the unprecedented acute food insecurity situation worldwide, the authority ceilings for both these mechanisms need to be urgently increased so that WFP can continue its efficient and effective response to the needs of vulnerable people.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the “Increase of strategic financing authority ceilings” and to endorse 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 decision as outlined in the document “Increase of strategic financing authority ceilings”.**



World Food Programme  
Programme Alimentaire Mondial  
Programa Mundial de Alimentos  
برنامج الأغذية العالمي

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## Increase of strategic financing authority ceilings

### Draft decision

Having considered the document "Increase of strategic financing authority ceilings", the Board approves by vote by correspondence increases in the authority ceilings for:

1. the Internal Project Lending facility, from USD 570 million to USD 760 million, while retaining as a safety net an operational reserve at its current level of USD 95.2 million; and
2. 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.

### Introduction

1. WFP is funded entirely by voluntary contributions, which are used to provide timely assistance to people in need. The timing of funding is critical in allowing WFP to provide assistance as rapidly as possible to vulnerable people. Sometimes, however, contributions for specific activities are not yet confirmed by donors when assistance is required by the people in need. In such cases, WFP must rely on advance financing.
2. Internal project lending (IPL) enables country offices to act immediately by receiving corporate spending authority prior to contributions being confirmed or received.
3. Another mechanism at WFP is the Global Commodity Management Facility (GCMF). Through the GCMF, WFP purchases and pre-positions food commodities as part of its corporate working capital management, before the food inventories are transferred to country operations. The GCMF has a critical objective of substantially reducing lead times for food deliveries (especially in emergencies). The facility also allows WFP to purchase food when market conditions are favourable, enabling economies of scale and facilitating local and regional procurement when possible.

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#### Focal points:

Mr M. Juneja  
Chief Financial Officer and  
Assistant Executive Director  
Resource Management Department  
tel.: 066513-2885

Ms W. Bigham  
Deputy Director  
Corporate Planning and Performance Division  
tel.: 066513-3716

4. As part of its oversight role, the Executive Board approves ceilings for both these strategic financing mechanisms. For IPL, the ceiling sets an upper limit on the corporate spending authority that management can provide prior to contributions being confirmed; for the GCMF, the ceiling sets a cap on the value of food that management can pre-position as part of its management of working capital.
5. The unprecedented acute food insecurity situation worldwide, including in Afghanistan, Ethiopia and Yemen calls for an urgent increase in the IPL and GCMF ceilings so that WFP can continue its efficient and effective response to the needs of vulnerable people.

### **Internal project lending**

6. Internal project lending (IPL) provides spending authority for a country strategic plan (CSP) before a contribution is confirmed. Specific forecast contributions are identified as collateral for specific amounts to be spent in advance. The current ceiling for this facility is USD 570 million. 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. Since the establishment of this facility sixteen years ago, the operational reserve has been used twice, for an amount of USD 5.9 million in 2005, the year the IPL was piloted, and in 2018 for an amount of USD 2.2 million.
7. 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 part of the analysis supporting this increase, Boston Consulting Group (BCG) noted that WFP took a conservative approach to leveraging the operational reserve. According to their analysis, the current leverage ratio of 6:1 could be increased to 10:1.<sup>1</sup> In 2021, a new BCG analysis reconfirmed that IPL is an effective advance financing mechanism and that, should the need arise, WFP should increase the ceiling to maximize its potential.
8. In 2015 the Executive Board was informed that management planned to pilot macro advance financing (MAF), with an upper limit of USD 200 million.<sup>2</sup> MAF is a subset of IPL, subject to the USD 570 million ceiling and backed by the same operational reserve. Unlike regular IPL, MAF is based on a robust resource outlook for a CSP rather than individual forecast contributions. During nearly six years of operation, MAF has provided USD 662.9 million in advances to accelerate timely and rapid assistance to vulnerable people, and recourse to the operational reserve to cover advances that have not materialized has never been necessary.
9. As a result of the increase in the IPL ceiling in 2015, the IPL ceiling was equivalent to 11.4 percent of the funded programme of work for that year. In 2021, with a funding forecast of USD 8.6 billion, the IPL ceiling has dropped to 6.6 percent.

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<sup>1</sup> WFP/EB.A/2014/6-D/1, para. 24.

<sup>2</sup> WFP/EB.2/2015/5-C/1, paras. 19–27.

<b>TABLE 1: FUNDED PROGRAMME OF WORK VERSUS AVAILABLE FINANCING FOR IPL</b>			
<b>Year</b>	<b>Funded programme of work (USD million)</b>	<b>Available financing for internal project lending (USD million)</b>	<b>Working capital available as % of programme of work</b>
2013	4,400	257	5.8
2014	5,500	257	4.7
2015	5,000	570	11.4
2016	5,900	570	9.7
2017	6,100	570	9.3
2018	7,300	570	7.8
2019	8,100	570	7.0
2020	8,500	570	6.7
2021	8,600	570	6.6

Source: 2013–2020 actual contribution revenue, ([www.wfp.org/funding](http://www.wfp.org/funding)); 2021 actual and projected contributions, management plan (2022–2024).

10. In WFP's increasingly complex operational environment, advance financing is a vital instrument addressing the challenges WFP faces as a voluntarily funded organization because it provides WFP operations with enhanced predictability for resource management and allows greater stability in programme implementation. In less than a year since the beginning of 2021, USD 1.5 billion has been advanced to programmes. 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.
11. Since October 2021, WFP has been witnessing a surge in requests for IPL. This is because humanitarian demands are escalating rapidly in hotspots such as Afghanistan, with country operations requiring timely spending authority pending receipt of forecast contributions so that they can urgently provide life-saving food assistance to beneficiaries and to have funding authority to pre-position food before adverse weather conditions constrain access. 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.
12. A higher IPL ceiling would allow management to provide country offices with advance spending authority that will enable them to respond to emergencies during this exceptionally critical situation. Management is therefore requesting the Board to increase the IPL spending authority ceiling to USD 760 million. Within this ceiling, management would manage the MAF within a limit of USD 270 million.
13. The safety net, in case of default on forecasted contributions, will remain as the operational reserve of USD 95.2 million. With a ceiling of USD 760 million, the leverage ratio would increase from 6:1 to 8:1. While there are inherent risks with the IPL mechanism because forecast contributions may not always materialize, mitigation measures have been very robust. Such measures have resulted in only one write-off amounting to USD 2.2 million since the facility was mainstreamed into WFP's financial management model from 2006. Furthermore, as noted above, an increase in the IPL ceiling to USD 760 million, while

retaining the operational reserve at its current level of USD 95.2 million, is supported by the external study undertaken in 2021 by BCG.

## **Global Commodity Management Facility**

14. In June 2021, the Board approved an increase in the Global Commodity Management Facility (GCMF) ceiling from USD 560 million to USD 660 million to address increased requests for GCMF funds such as: growing demand for GCMF stocks in response to the Tigray emergency, increased use of food to support service provision, further support to the unprecedented crisis in Yemen, increasing demand for specialized nutritious foods and expansion in Asia, to respond to the ongoing emergency in Myanmar and Bangladesh and the socioeconomic impact of COVID-19.
15. This decision was made before events unfolded in Afghanistan from mid-August 2021. The food insecurity situation in Afghanistan continues to worsen. According to the latest Integrated Food Security Phase Classification (IPC) report, issued on 25 October 2021 by the food security and agriculture cluster of Afghanistan, a record 22.8 million people - more than half the population of Afghanistan - will face acute food insecurity from November 2021. This is the highest number of acutely food insecure people ever recorded in the ten years that the United Nations has been conducting IPC analyses in Afghanistan.
16. Despite the recent increase in the GCMF ceiling, approved by the Board at its annual session, the utilization of the facility has been on average over 90 percent. The USD 100 million funds earmarked for unfolding emergencies were allocated across the supply lines where there was growing need due to escalating emergencies. For example, USD 71 million was allocated to support the Asia supply line in response to the Afghanistan emergency, in addition to USD 20 million initially allocated, and USD 29 million was allocated to East Africa in response to the Tigray emergency.
17. In view of the above, it is proposed that the GCMF ceiling be increased by USD 140 million. USD 80 million would be used to re-establish the envelope for unfolding emergencies, USD 50 million will be allocated to support the Asia corridor, namely the Afghanistan emergency, and the remaining USD 10 million will be allocated to further support operations in the Middle East.
18. It is therefore recommended that the GCMF ceiling be increased to USD 800 million. Management would utilize the facility across the following areas:
  - USD 700 million would be used to ensure a steady corporate inventory of food, ready to be transferred to country operations with reduced lead times for zones that are to be served by the GCMF. This would permit support for meeting increasing requirements in Afghanistan, Yemen and Ethiopia.
  - USD 20 million would continue to support smallholder farmer procurement activities through a dedicated budget line in the GCMF special account, which would simplify the tracking process and allow the commitment of funds for longer periods without affecting lead time gains.
  - USD 80 million would be unassigned and allocated to any supply line where it was needed to respond to unfolding emergencies.
19. A Global Commodity Management Facility reserve of USD 6 million is currently in place to cover any uninsured losses of GCMF procured food. Over the past 10 years, this safety net has never been utilized. In fact, during this period, the scope of self insurance to cover commodity losses has expanded, providing further mitigation against GCMF losses. The reserve of USD 6 million is therefore considered sufficient for an augmented GCMF ceiling of USD 800 million.