



Financial Seminar:

Overview of WFP Financial Framework in the context of other UN agencies and International Organisations

Rome, May 25th, 2009





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1. Introduction/ Background



The Secretariat recently started the review process of WFP Financial Framework

April 2008: Launch of Financial Framework Review

April-Dec 2008: Informal Lists Consultations

April – Dec 2008: Internal Secretariat Consultations (CO's and RB's)

Main areas to be addressed by the Financial Framework Review:

Ensuring predictability and stability of the Programme's funding

Achieving a higher level of flexibility and effectiveness in resource usage

Reinforcing transparency in allocation of resources

Three consultations with WFP members are planned to focus on a sub-set of issues

- Background and context of the financial framework review, including some initial findings from benchmarking
- Benchmarking with comparable United Nations agencies and non-governmental organizations
- Mitigating volatility and improving predictability (with World Bank participation)

*Today we present
some initial
(indicative) findings
from benchmarking*

Strategic Alignment and Harmonization with the UN system are the fundamental aspects considered in the review



1. Introduction/ Background



Objectives of this seminar

- Illustrate key characteristics of WFP Financial Framework
- Highlight main differences with other comparable organisations
- Discuss and gather feedback

1. Introduction/ Background



WFP Financial Framework basics

WFP is 100% voluntary funded

Full cost recovery principle (launched in 1996): full operational and support costs associated with the implementation of a contribution to be covered

- Direct Operational Costs
- Direct Support Costs
- Indirect Costs

Funding windows

- Multilateral
- Directed multilateral (earmarked)
- Bilateral

Programme categories

- EMOP, PRRO, Development, Special Operations

1. Introduction/ Background



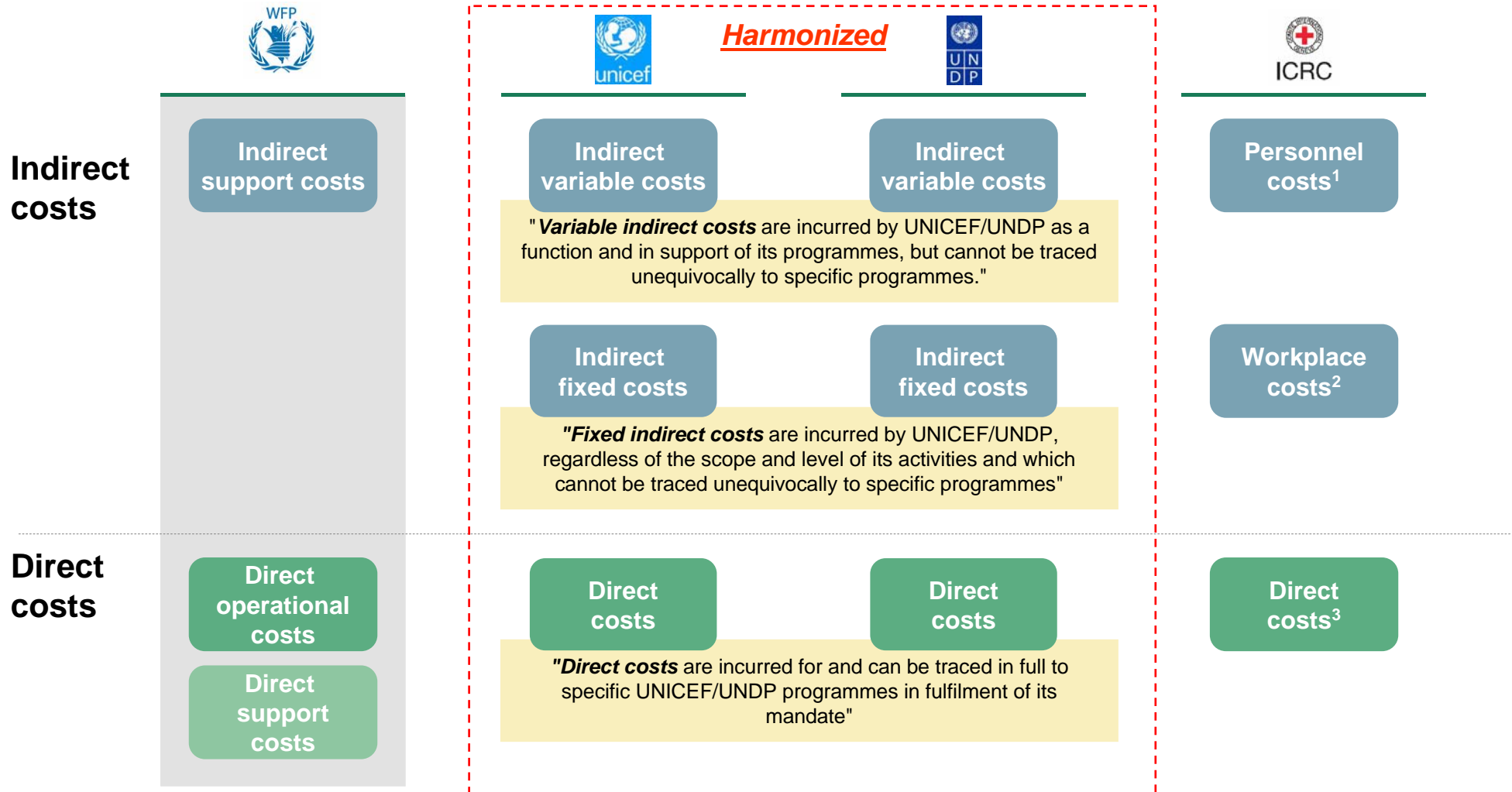
WFP contributions utilised to fund three cost categories

	Definition	Costs included	Recovery method
Indirect Support Costs	".. A cost which supports the execution of projects and activities but cannot be directly linked with their implementation" ¹	<ul style="list-style-type: none"> Programme Support Management & Admin. 	ISC % rate on DOC+DSC value
Direct Operational Cost	".. Any cost incurred by WFP in providing inputs that are utilized directly in activities by beneficiaries, the government of recipient country or other partners .." ¹	<ul style="list-style-type: none"> Commodity Ext Transport LTSH ODOC 	Actual/market prices
Direct Support Cost	".. Any cost which can be directly linked with the provision of support to an operation which is not an indirect support cost nor a direct operational cost" ²	<ul style="list-style-type: none"> Staff & staff related Capital expenses Recurring expenses 	

1. Financial Regulations, Art. 1 2. Based on R<F paper definition of DSC.
 Source: WFP General Regulations, General Rules, Financial Rules and Consolidated Financial Manual, WFP interviews

1. Introduction/ Background

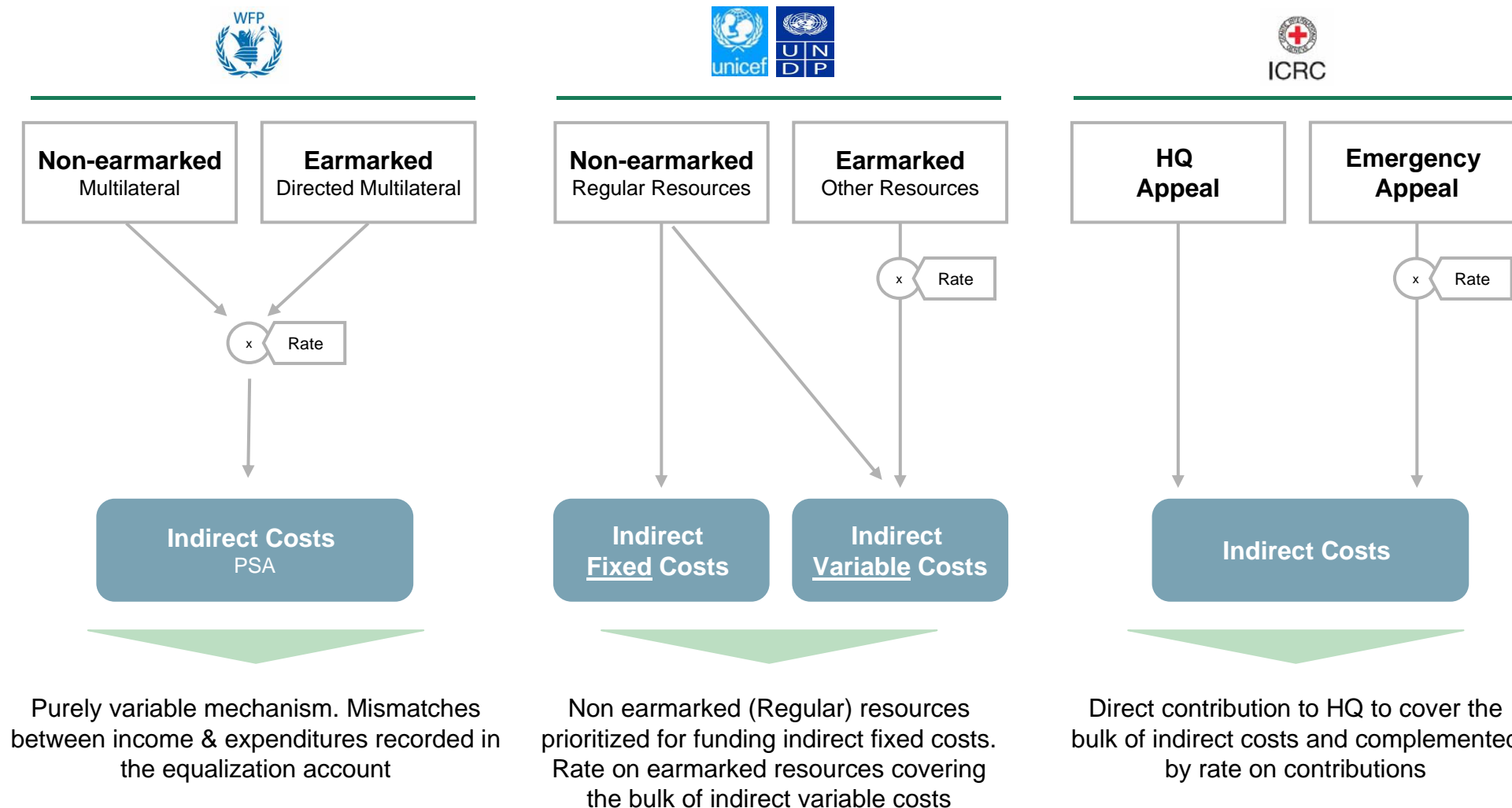
WFP costs structure different from other organizations



1. Costs initiated directly by employees and comprise salaries, social benefits, training and all other expenses directly related to staff remuneration. 2. Costs incurred in connection with the space and infrastructure necessary for the work of staff, and are therefore directly correlated to the number of employees, e.g. IT infrastructure, rent of workspace, . 3 Costs with no direct relation to the number of employees and that can therefore be allocated directly to cost units accounting, e.g. purchase of goods and services for distribution to beneficiaries
 Source: ICRC annual report 2007, Unicef management plan 2008-2009, UNDP Cost component analysis

2. Indirect costs and funding models

Review of comparable organizations. All models 100% voluntary funded.



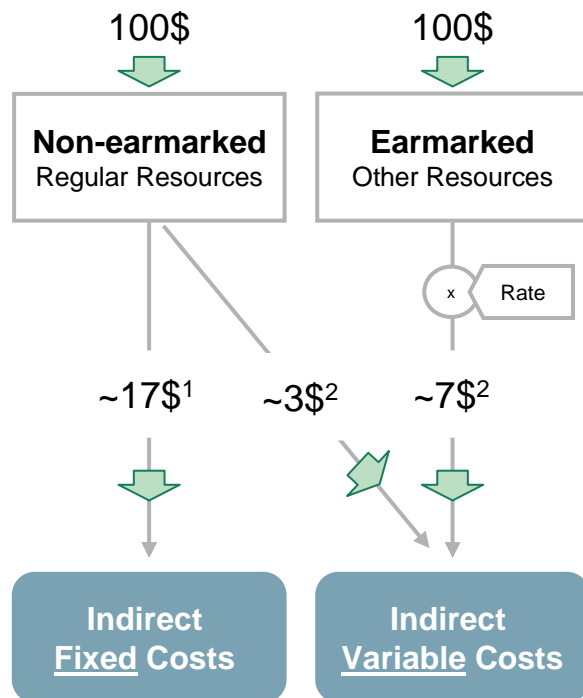
Source: WFP, Unicef, UNDP, ICRC websites, annual reports, interviews

2. Indirect costs and funding models

Alternative models: how does UNICEF mechanism work?



Example based on UNICEF model



Description

Step 1: Define and isolate fixed costs in the support budget to be funded from Regular Resources

- Implied rate variable according to overall Regular Resource Level

Step 2: Determine the proportion of Regular and Other Resources

Step 3: Calculate the portion of variable indirect costs for Regular & Other Resources using the proportion in step 2

- Fix Rate for Other Resources accordingly (target is 7%)
- Usually 30% from RR and 70% from OR

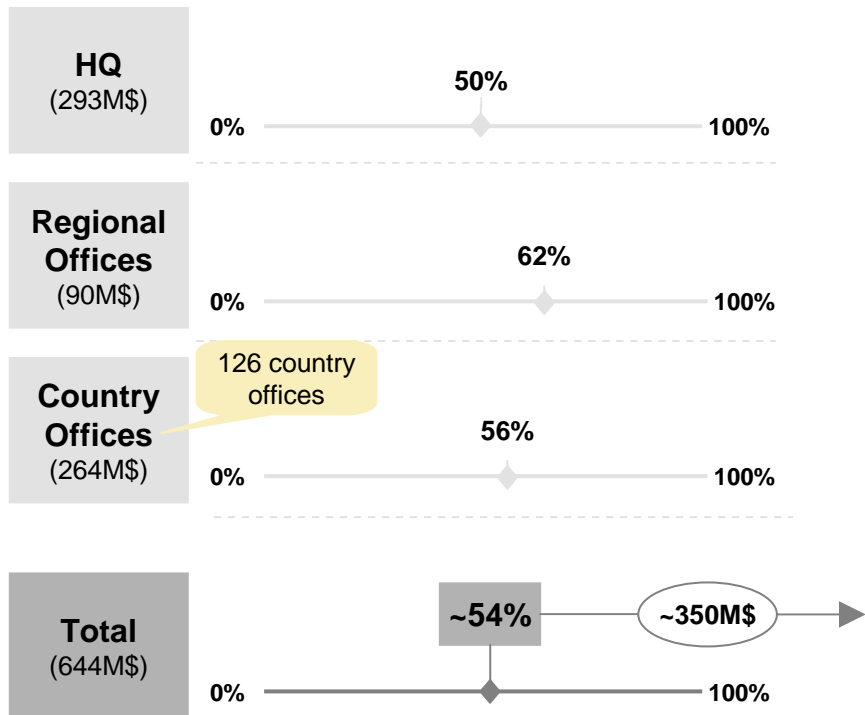
1. Variable according to overall level of Regular 2 Variable according to the mix of Regular Vs Other Resources
Source: "Review of the UNICEF Cost Recovery Policy " ICEF 2006AB/L4

2. Indirect costs and funding models

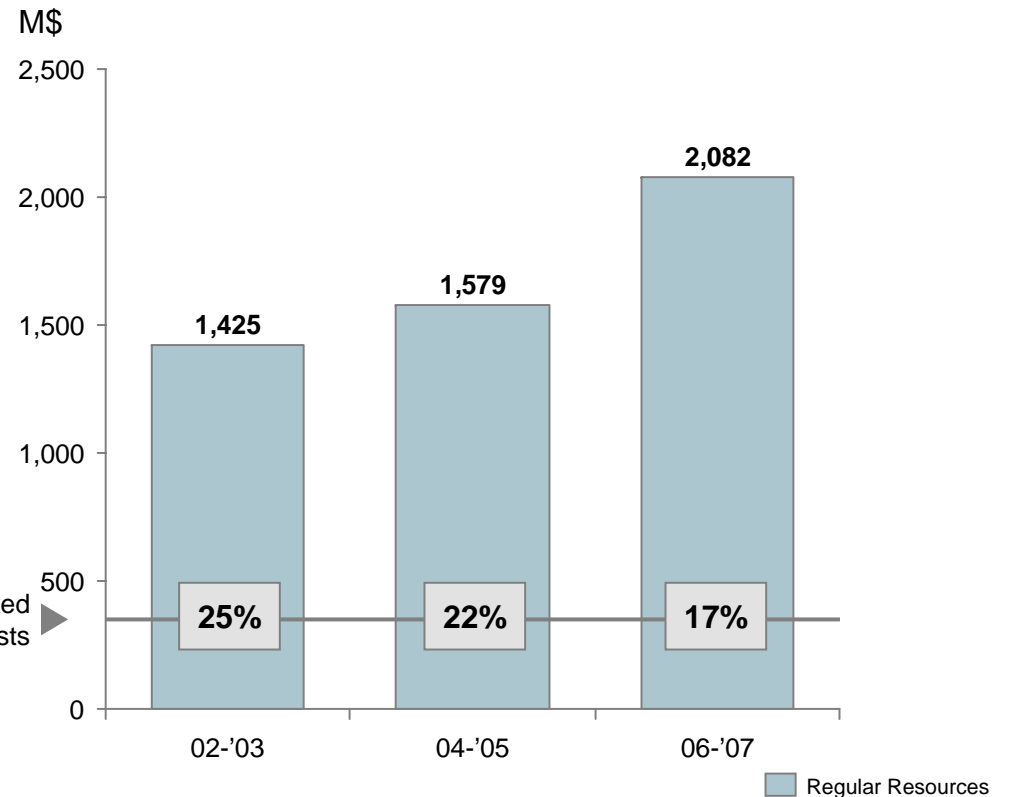
UNICEF's Indirect Fixed Costs funded from non-earmarked Regular Resources



% Fixed on total Indirect Costs



% Indirect Fixed Costs on Regular Resources



High level of non-earmarked resources required to sustain UNICEF model

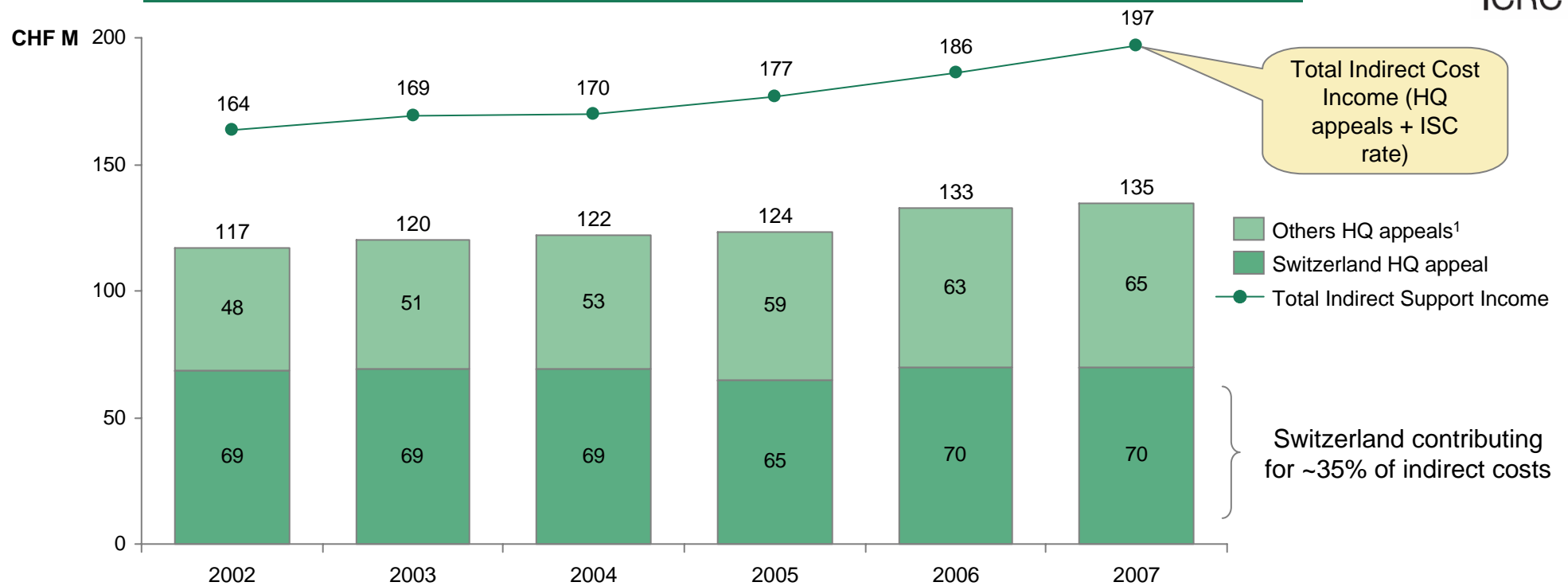
Note: Resources approx 30-35% of total resources in '06-'07, 27% in '04-'05, 30% in '02-'03
 Source: UNICEF Biennial Support budget for 2008-2009, Review of the UNICEF Cost Recovery Policy ICEF 2006AB/L4

2. Indirect costs and funding models

For ICRC, Switzerland contributing significantly to HQ appeals



ICRC HQ appeals and Total Indirect Support Income 2002-2007



ICRC ~70% of Total Indirect Cost Income coming from HQ appeals, ~30% through 6.5% ISC rate on donation

1. Depending on the year, includes contributions from ~70-80 Governments
 Note: Average 2009 USD/CHF exchange rate is 0.875
 Source: ICRC Financial year and HQ appeals 2002, 2003, 2004, 2005, 2006, 2007, Annual report 2007

2. Wrap-up on Indirect costs and funding models



Indirect Cost funding architecture is different across comparable organizations

- WFP with a purely variable mechanism (based on ISC rate)
- UNICEF and UNDP using Regular Resources to cover all Indirect Fixed Costs
- ICRC with extensive use of HQ appeals system



High level of Multilateral (non-earmarked) required to sustain UNICEF and UNDP models



Stable level of HQ appeals from key donors (e.g. Switzerland) crucial for the ICRC mechanism

3. Funding and Costing Framework for Direct Costs

WFP full cost recovery model: calculation based on tonnage

	Cost component	Cost recovery calculation method
Direct Operational Cost	<ul style="list-style-type: none"> Commodity Ext. Transport LTSH ODOC 	<ul style="list-style-type: none"> Actual per-ton market prices, FAC¹ price, donor's invoice price Estimated actual costs Average per-ton rate of the project
	<ul style="list-style-type: none"> Staff & staff related Capital expenses Recurring expenses 	
Direct Support Cost	<ul style="list-style-type: none"> Management & Administration HQ programme support 	<ul style="list-style-type: none"> ISC rate <ul style="list-style-type: none"> – % Direct costs (DSC+DOC)
Indirect Support Costs		

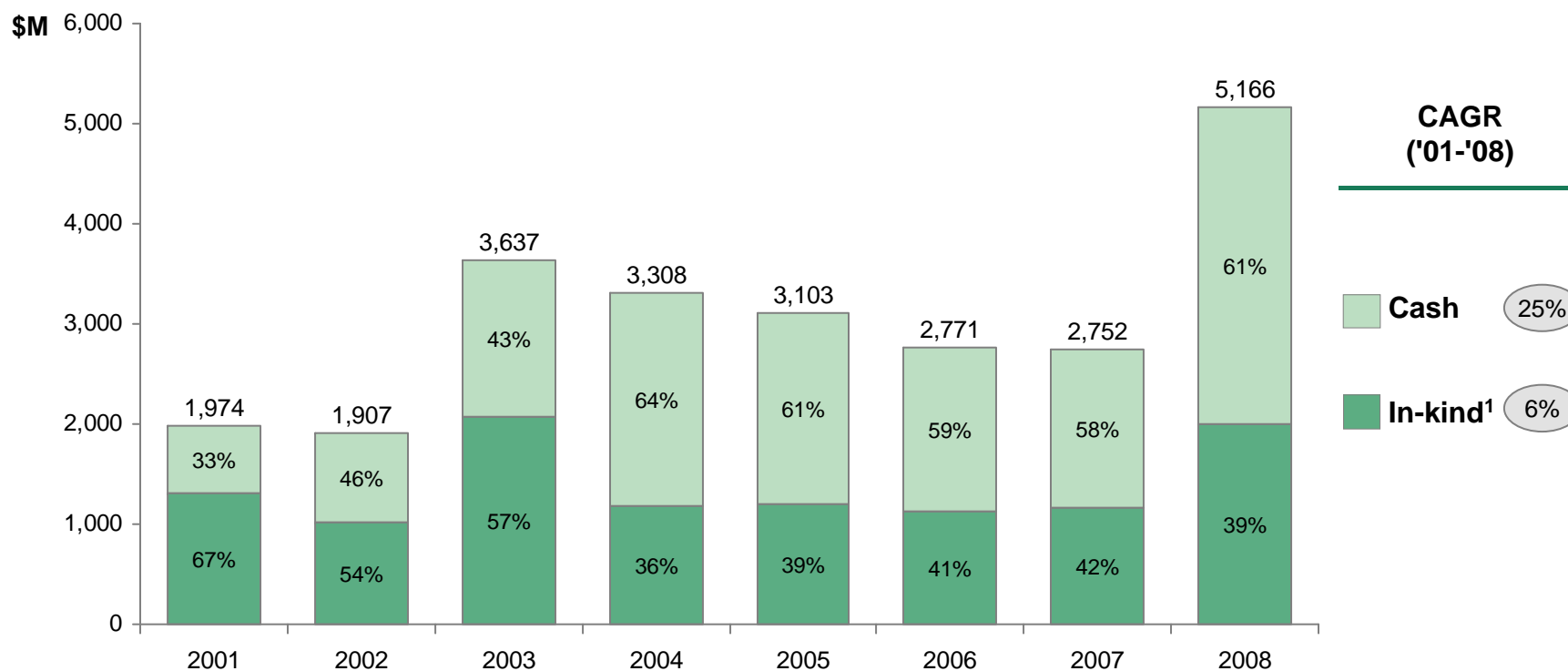
FCR principle is needed mainly for associated cost calculation of food donations

1 – Food Aid Convention price
 Source: Guide for the Operational Budget '10-'11, General Rules

3. Funding and Costing Framework for Direct Costs

WFP cash contributions now at more than 60% of total contributions, five times the amount of 2001

Contributions to WFP by nature, 2001-2008

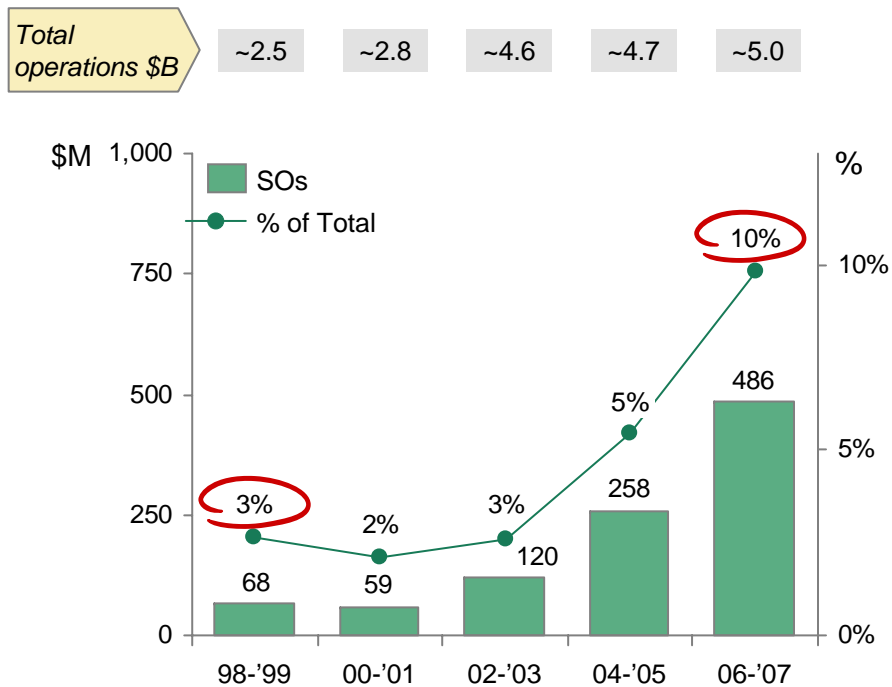


1. Includes associated cash contributions
Source: WFP WINGS

3. Funding and Costing Framework for Direct Costs

Several elements progressively determining increase in WFP non-commodity based activities

Historical trend: e.g. SOs



New directions from Strategic Plan

- Focus on "food assistance" rather than "food aid"
- Shifting towards a more "nuanced" set of activities to respond to critical hunger needs

Note: All figures excludes bilateral, trust funds and special accounts.
 Source: WINGS data, WFP management plan update 2008-2009, management plan 2006-2007, management plan 2004-2005, WFP "blue book"

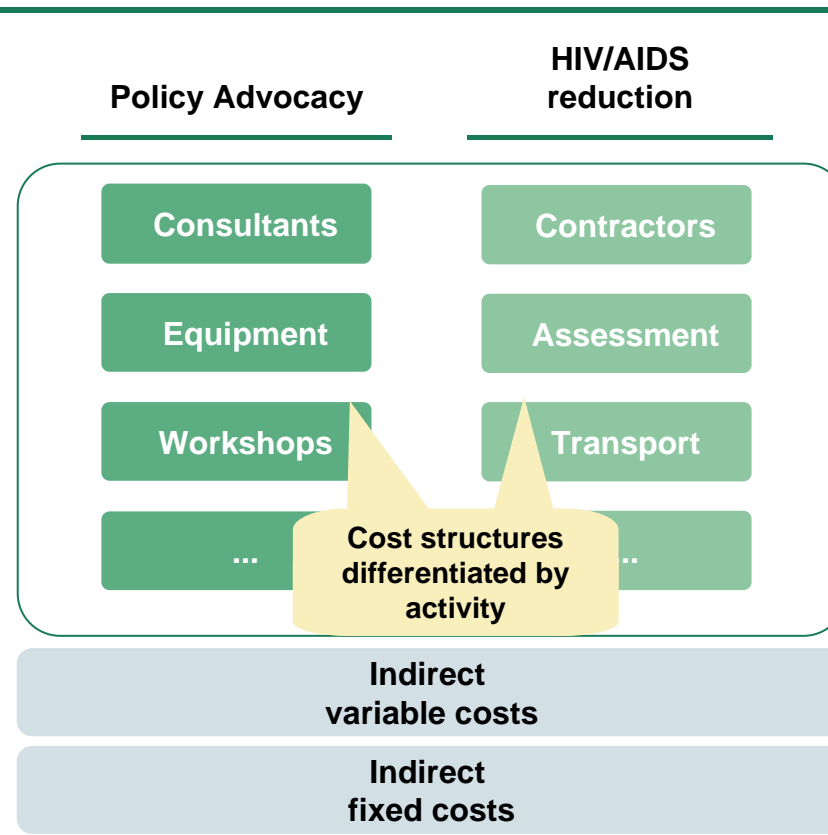
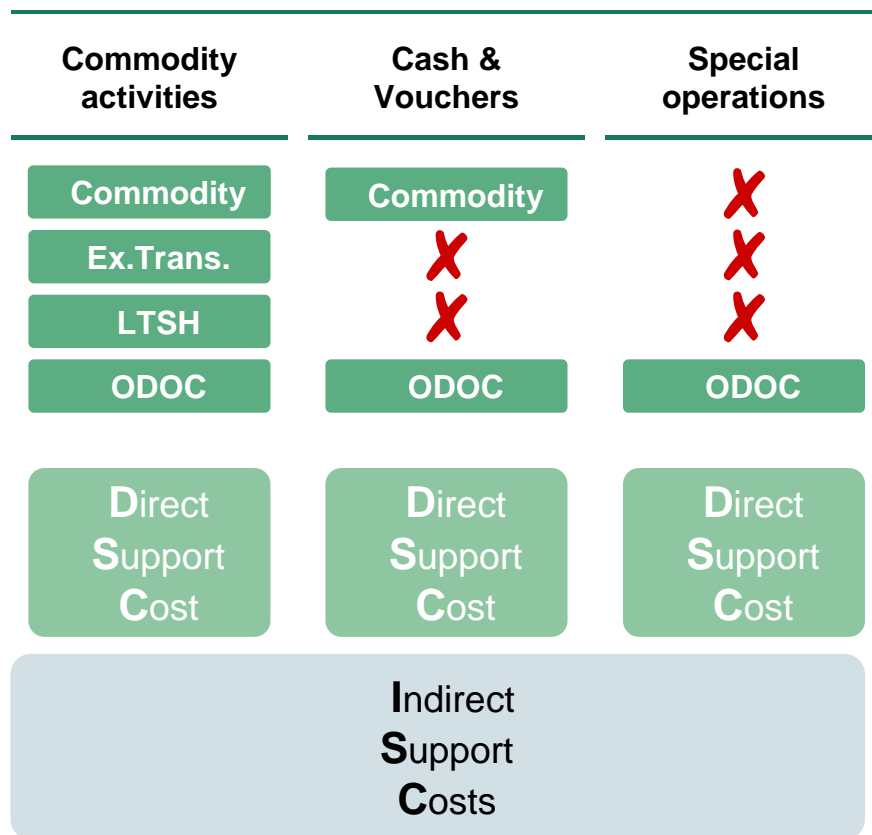
3. Funding and Costing Framework for Direct Costs

Different approaches in costing framework

All WFP projects follow a single costing structure



- Illustrative example -



Source: WFP Wings data, UNDP results and resources framework, Government of the federal republic of Nigeria project document

3. Wrap-up of Funding and Costing Framework for Direct Costs



WFP costing framework based on tonnage for all type of contributions

- Originally designed to manage food¹ donations



WFP moving towards more cash contributions and non-commodity activities

- Cash contributions became predominant in the last years
- Historical increase of non-commodity activities reinforced by the new strategic plan



Other agencies (e.g UNDP) differentiate costs structure by activity

1. Including in-kind contributions and cash in lieu of commodity contributions

4. Funding Windows

WFP funding windows

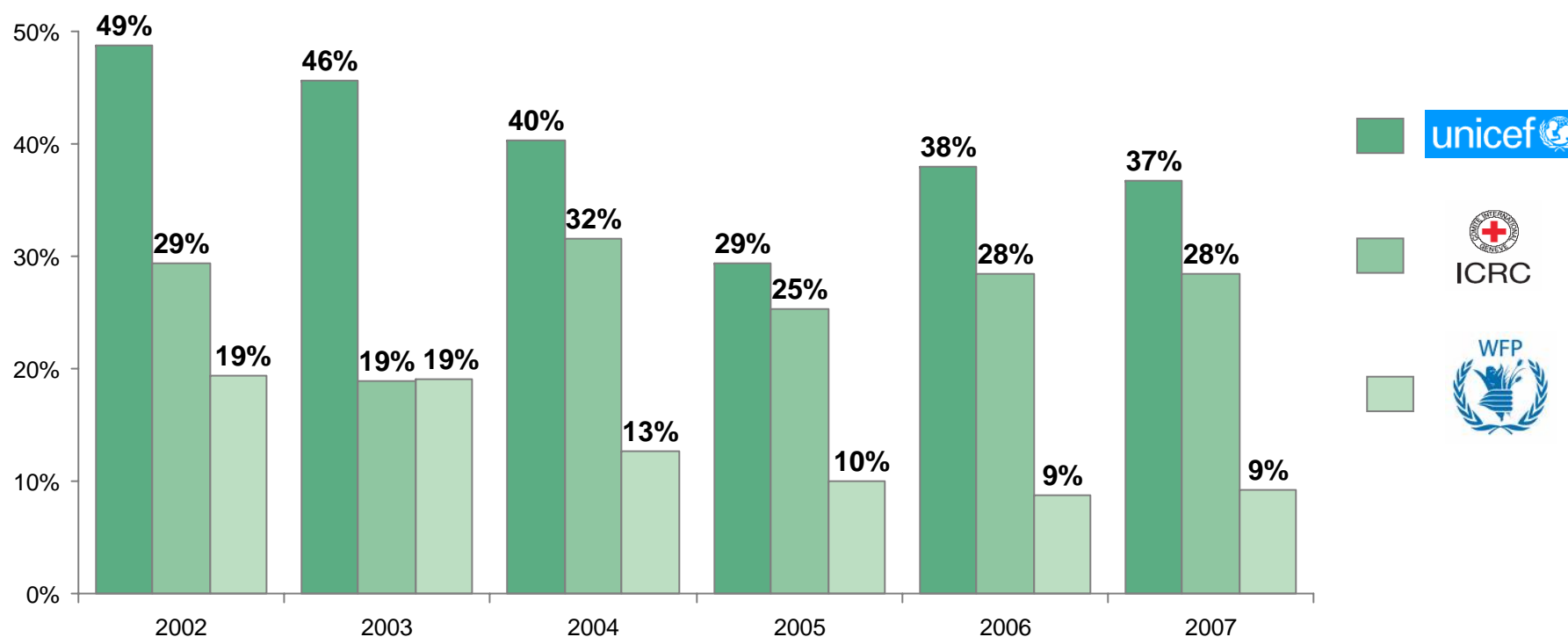
	Definition	Description
Multilateral	".. A contribution for which WFP determines the Country Programme or WFP activities in which the contribution will be used and how it will be used..." ^{1,2}	<ul style="list-style-type: none">• Not directly linked to projects/ countries
Directed multilateral	".. A contribution which a Donor requests WFP to direct to a specific activity or activities initiated by WFP or to a specific Country Programme" ¹	<ul style="list-style-type: none">• Linked to specific projects/ countries
Bilateral	".. A contribution directed by the Donor to support an activity non initiated by WFP" ¹	<ul style="list-style-type: none">• Trust Funds, Special Accounts, JPO, etc.

1. Definitions; Financial Regulations 2. Including appeals
Source: WFP General Regulations, General Rules, Financial Rules and Consolidated Financial Manual, WFP interviews

4. Funding Windows

Multilateral resources are losing share across many organizations

Multilateral resources as a % of total contributions – WFP, UNICEF, ICRC 2002-2007



WFP level of flexibility is low compared to other organizations

Note: Unicef multilateral does not include slightly earmarked thematic funding introduced first in 2002 (~10% of contributions), ICRC Multilateral does not include slightly earmarked contributions (~40/50% of contributions) Source: Unicef Annual Report 2007, UNICEF Annual report 2005, Unicef Annual report 2003, ICRC Annual report 2007, 2002, WFP "annual performance report for 2007" WFP/EB.A/2008/4,

4. Funding Windows



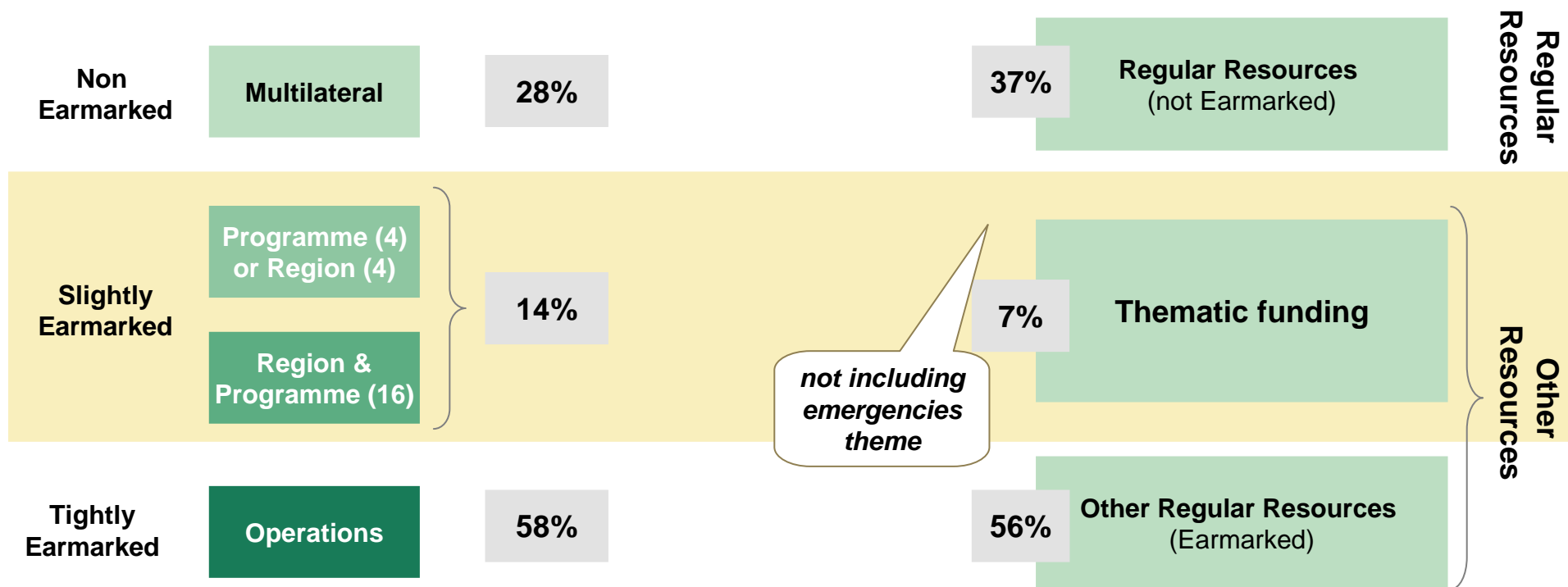
Other organizations have introduced additional funding windows to capture more flexibility



ICRC funding windows



UNICEF funding windows

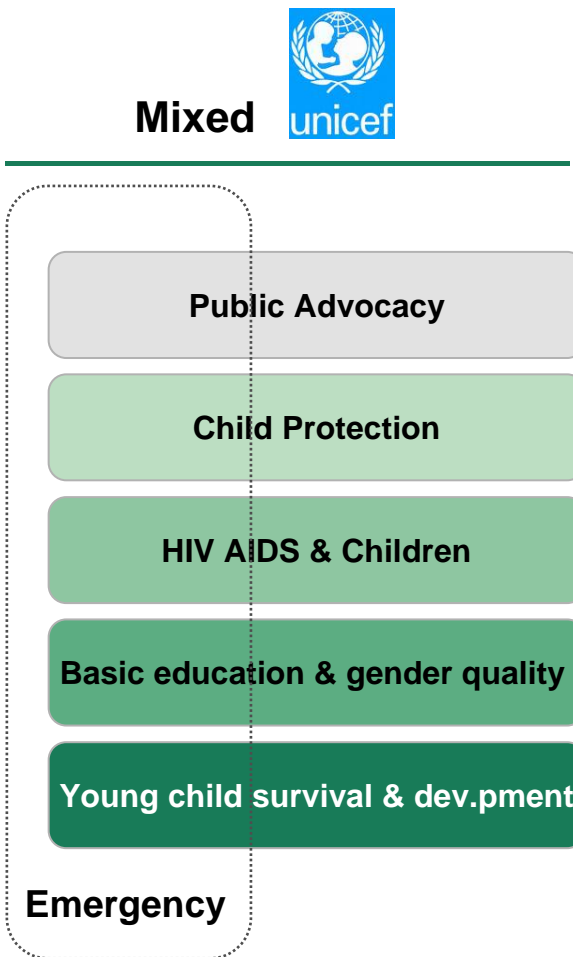
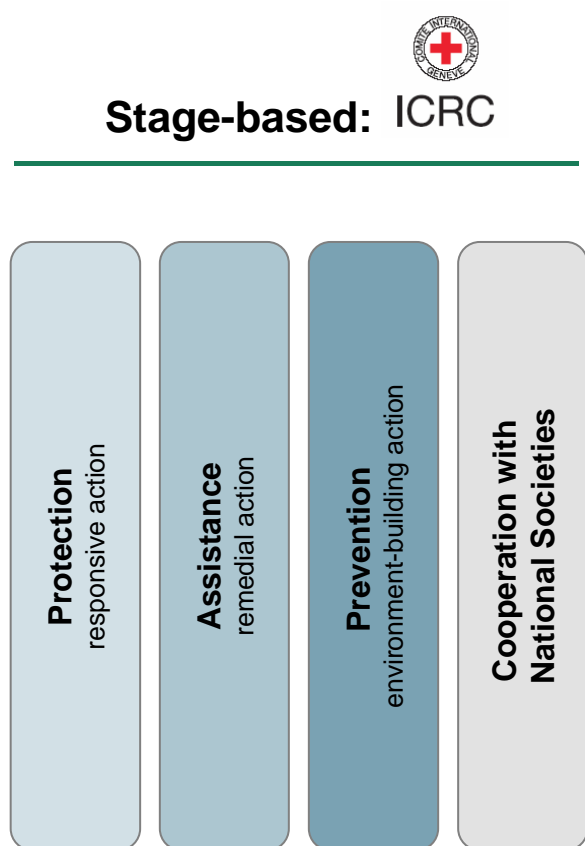


Note: Unicef "thematic funding" figures excludes "Emergency" thematic area which was considered within "other regular resources"
 Source: ICRC Annual report 2007, UNICEF Annual report 2007, E/ICEF/2008/22 UNICEF "Thematic funding as a financial instrument in support of the UNICEF medium-term strategic plan", BCG analysis

4. Funding Windows



Different approaches in structuring themes



Source: ICRC annual report 2007, Unicef "thematic funding", UNDP annual report 2008

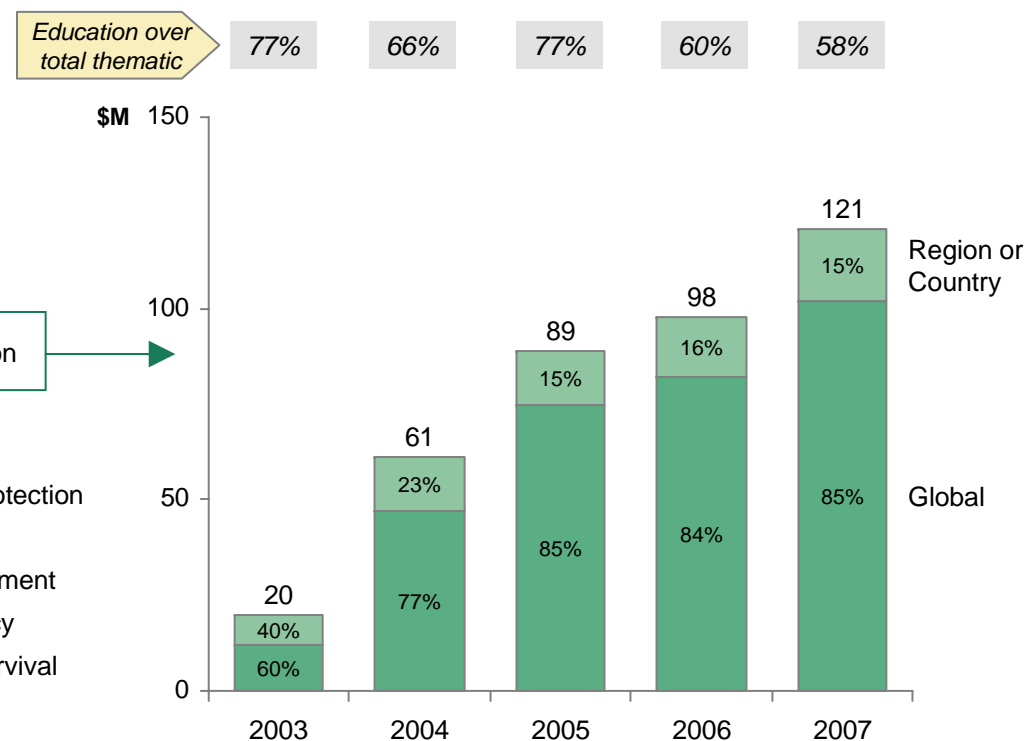
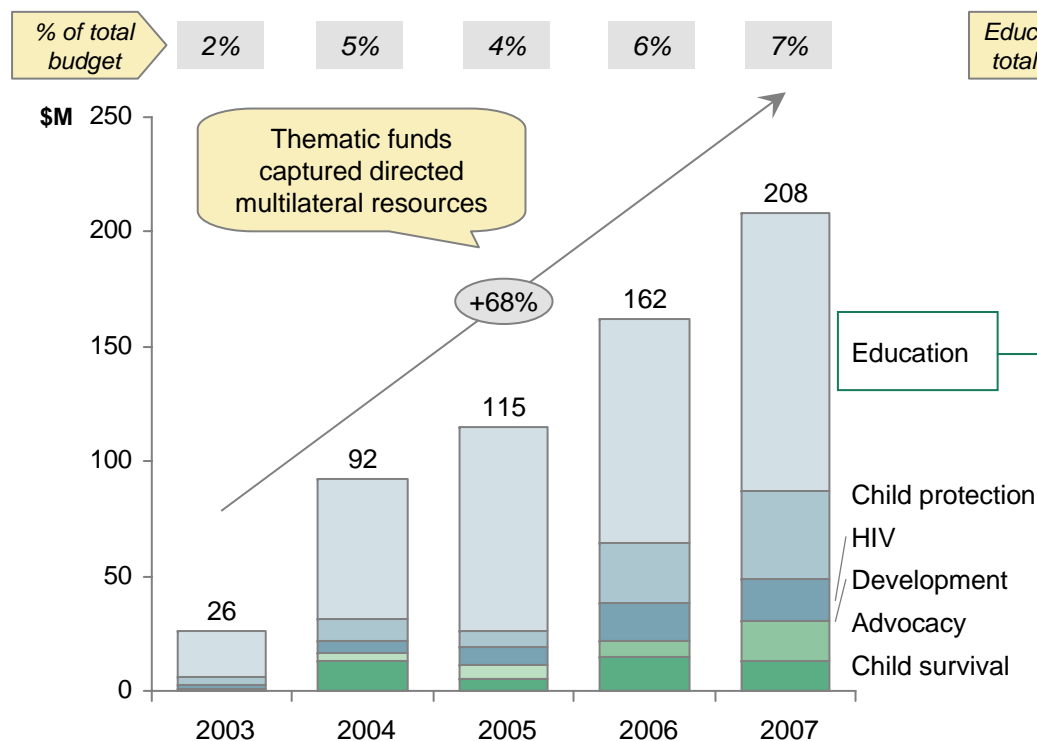
4. Funding Windows

UNICEF thematic funding grew up to ~200\$M with increasing flexibility



UNICEF Thematic resources¹
(2003-2007)

UNICEF "Education" thematic resources
earmarking level (2003-2007)



Many donors support UNICEF thematic funding

1. Excluding "Humanitarian response"
Source: UNICEF Annual report 2007, E/ICEF/2008/22 UNICEF "Thematic funding as a financial instrument in support of the UNICEF medium-term strategic plan", BCG analysis

4. Funding Windows



UNICEF reported several benefits from introducing thematic funding

Enhanced flexibility:

- Scale up from local projects to global themes with a wider scope and longer duration

Greater efficiency:

- Reduced staff time spent on managing contributions, e.g. fewer donor proposals, one consolidated single report

Improved accountability:

- Stronger consistency with strategic goals (themes are aligned with Strategic Plan) and easier result based management



***Thematic funding considered as best options after untied
Regular Resources***

4. Funding Windows



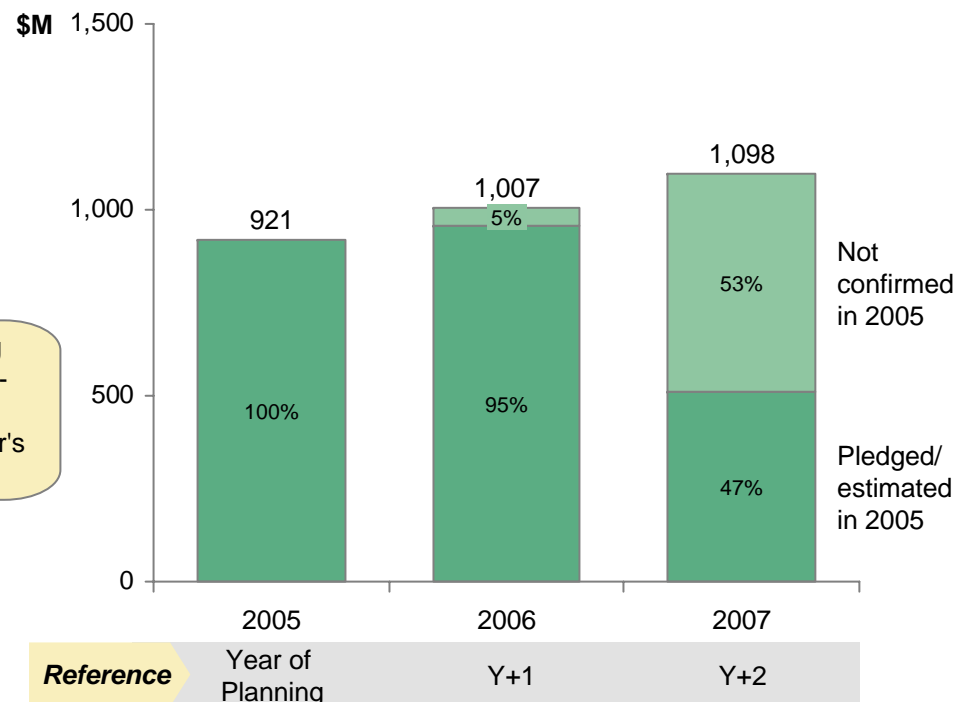
UNDP Multi-Year Funding Framework (MYFF) allows multi-year agreements for regular resources

UNDP's MYFF approach

- **Implementation of Multi year funding framework (MYFF)**
 - 4-years plan of resource requirements
 - yearly review of funding levels versus plan
 - visibility of mid-long term financial needs
- **Strategic alignment across all planning documents**
 - strategic plan
 - MYFF
 - country programme
 - projects / activities
- **Synchronized 4 years time frame of main planning documents**
 - strategic plan
 - MYFF

Factors supporting negotiation of multi-year pledges (if possible within donor's legal framework)

UNDP's regular resources pledges/estimations¹, 2005²



UNDP also supported by the long term nature of development projects

1. Pledges/estimations reported be based both on formal commitments and informal agreements with donors 2. Total UNDP's resources requirements are estimated based on 2004-2007 9% CAGR. pledges/estimations amounts are figures reported by UNDP Source: Status of regular funding commitments to UNDP and its associated funds and programmes for 2006 onwards, DP/2006/18

4. Wrap-up of Funding Windows

! **Multilateral (non-earmarked) contributions are the preferable option for UN agencies and NGOs**

- General decrease of multilateral non-earmarked resources
- WFP has the lowest amount of multilateral resources across comparable organizations

! **UNICEF, UNDP and ICRC implemented additional funding windows**

- UNICEF thematic funding successfully captured part of earmarked resources

! **Multi-year agreements improve stability and predictability of resources**

- Strategic plans and priorities areas support multi-year funding
- UNDP's Multi-Year Funding Framework allows the organization to reach multi-year agreements for regular resources

5. Way Forward

