



World Food Programme

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# Workshop on WFP's Financial Concepts

Briefing on Financial Concepts, Structures, and Terminology

February 17

# Agenda

## 01. Governance

Blue Book, Management Plan, CSPs

## 02. Financial Architecture

Revenue streams, Cost categories

## 03. Full Cost Recovery

Regulations, Exemptions and Exceptions

**01.**

Governance

# Overview of WFP's Governance

[WFP's](#) governance framework is defined by its establishment as a joint programme of the United Nations and FAO, with policy direction and oversight provided by the [Executive Board](#). Governance, management and financial accountability are set out in the [General and Financial Regulations](#).

## Key Pillars of WFP Governance

### Executive Board

Comprised of 36 Member States, it provides intergovernmental support, policy direction, and supervision, ensuring WFP's responsiveness to country needs.

### General & Financial Regulations

These foundational documents define the roles, responsibilities, and rules for governance, directing policy and financial management, as set out in the General Regulations.

# What is the difference between...

## WHAT & WHY



### General Regulations

*WFP's foundational constitution document*

**Approval:** approved by the UN General Assembly and the FAO Conference (WFP's UN 'parent bodies').

**Content Example:** Article II outlines the purposes and functions of WFP.



### Financial Regulations

*Provide governing principles for the financial management, accounting and reporting of funds*

**Approval:** approved by the WFP Executive Board.

**Content Example:** Details on accounting for contributions, managing funds, and procedures for payments

## HOW



### General Rules

*Set WFP's practical general procedures on 'how-to' implement the general regulations*

**Approval:** approved by the WFP Executive Board.

**Content Example:** Rule XIII.4.e provides the type of exceptions to the standard ISC rate (e.g. government contributions to programs in their own countries).



### Financial Rules

*Provide detailed and specific financial and administrative procedures*

**Approval:** Approved by the Executive Director.

**Content Example:** Rules on budget management, delegation of financial authority, commitment and use of funds, and financial controls and accountability.

# Key Governance Documents Under EB Approval Authority

## Country Strategic Plans

**Purpose:** Country-level strategy and programme planning; defines WFP's portfolio of assistance in a country.

**Approval authority:** Executive Board; revisions follow formal delegated-authority thresholds.

**Frequency:** 4–5 years with, with revisions as needed.

**Budget:** Country portfolio budget defines each country's budget including direct operating cost and direct support costs.

**Funding model:** Voluntary funding; implemented through contributions (often earmarked) and, where relevant, service-provision revenue. All revenue is received on a full-cost recovery basis to ensure all operational and support costs are funded.

**Annual reporting:** Annual Country Report (ACR); aggregated information on performance and results feeds into the Annual Performance Report.



## Management Plan

**Purpose:** Corporate plan of work and budget.

**Approval authority:** Executive Board, through decisions within the Management Plan.

**Frequency:** Annual cycle with a rolling three-year horizon; updated as needed.

**Budget:** MP captures the aggregated annual value of all country portfolio budgets, indirect costs and strategic investments, e.g. the program support and administrative (PSA) budget.

**Funding model:** Voluntary funding; PSA funded through Indirect Support Cost (ISC) rate applied to contributions; ISC rate is approved by the Executive Board each year. Interest and investment income, surplus ISC and contributions may fund strategic investments.

**Annual reporting:** Audited Annual Financial Statements and Annual Performance Report submitted to the Executive Board as part of the corporate reporting and assurance cycle.

**02.**

# Financial Architecture

# How WFP funds its budget



## Voluntarily funded

100% voluntarily funded with no assessed budget.



## Full Cost Recovery

Operates under a Full Cost Recovery model. This means that each contribution\* must cover all associated operational, direct, and indirect support costs.

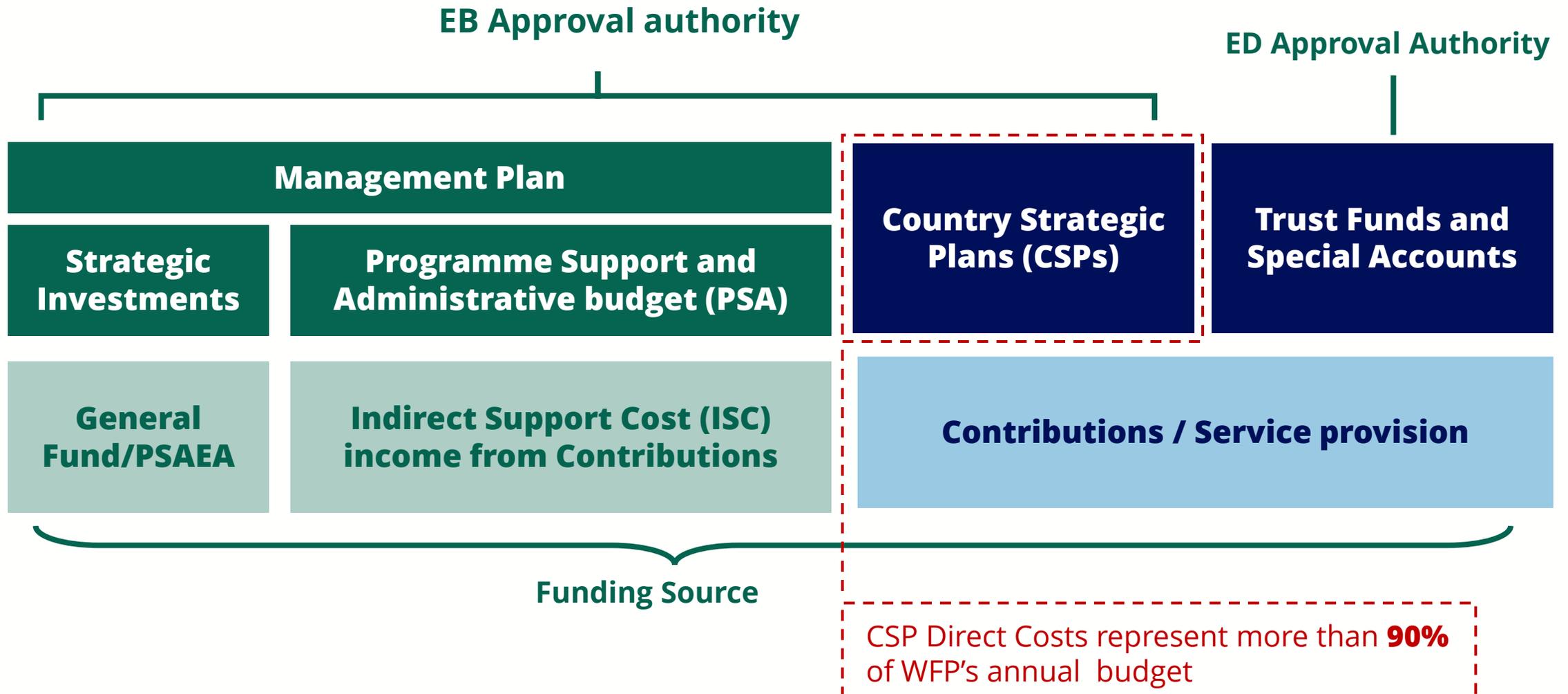
This applies to contributions from both the public and private sectors and is applicable to in-kind and cash contributions.



## Sources of revenue

- Contributions (>90% of WFP's revenue)
- Investment income
- Service provision
- Foreign exchange gains

# WFP's Financial Structure and Funding Sources



# Country Portfolio Budget Structure

## COUNTRY PORTFOLIO

### WFP Strategic Outcome

1. Effective emergency preparedness and response
2. Reduced needs and enhanced resilience to withstand shocks
3. Enabled government and partner programmes

### Country Activity

*E.g. Support to crisis-affected people; Food systems strengthening and resilience for targeted communities; strengthen national social and food assistance schemes*

## Cost Structure

### Direct Costs



### Transfer

*Value and delivery of assistance (e.g. food purchase, transport, storage)*



### Implementation Cost

*Activity-specific operational expenses (e.g. field office staff, monitoring)*



### Direct Support Costs (DSC)

*Country-level overhead supporting multiple activities (e.g. office rent, management salaries)*



### Indirect Support Costs (ISC)

*Corporate overhead recovered via a percentage on contributions (e.g. global governance, HQ services)*

# Distinction Between Direct and Indirect Costs

## DIRECT COSTS / CSPs

Direct costs are expenses that can be directly linked to the execution of a specific programme, project, activity or output.

### Current examples:

- Purchase of food commodities and non-food items
- Transport, storage and handling of commodities
- Cash-based transfers (transfer values and related delivery costs)
- Field-level implementation activities (e.g. beneficiary targeting, registration, distributions, monitoring)
- Country office facilities
- Country office enabling services (HR, Finance, Procurement, etc.)
- Country office Security

## INDIRECT COSTS / PSA

Indirect costs are “costs that cannot be directly linked to the execution of the programme or activity.”<sup>1</sup>

### Current examples:

#### Country Level:

- Country Directors and minimal Country Office running costs

#### GHQ Level:

- Governance, oversight and assurance functions
- Implementing partner management at GHQ level
- GHQ office facilities
- Enabling services provide at GHQ level (Finance, HR, Administration, IT, Procurement, etc.)
- Fundraising

ALL COSTS COVERED BY CONTRIBUTIONS

<sup>1</sup> Source: WFP Financial Regulations (“Blue Book”), definition of Indirect Support Costs.

# Direct and/or Indirect Costs

## DIRECT COSTS / CSPs

Expenses that can **be directly linked** to the execution of a specific programme, project, activity or output.

### Examples:

- Purchase of food commodities and non-food items
- Transport, storage and handling of commodities
- Cash-based transfers (transfer values and related delivery costs)
- Field-level implementation activities
- Country Office facilities.
- .....

## INDIRECT COSTS / PSA

Costs that **cannot be directly linked** to the execution of the programme or activity.”<sup>1</sup>

### Examples:

GHQ Level:

- Governance, oversight and assurance functions
- Implementing partner management at GHQ level
- GHQ office facilities
- .....



## Flexible

### Example of costs which can be classified as either Direct or Indirect

- Enabling services provide at GHQ level (Finance, HR, Administration, IT, Procurement, etc.)
- UNHCR : Programme Support cost charged as direct cost.
- UNICEF : finance and HR processing services charged as direct costs.
- ....

<sup>1</sup> Source: WFP Financial Regulations (“Blue Book”), definition of Indirect Support Costs.

# Key Differences | Contributions and Service Provision

## Contributions

WFP manages needs-based humanitarian and development interventions that are funded through voluntary **donor contributions**. Whether provided in cash or in-kind, contributions enable the implementation of CSP activities. All contributions are governed by General Regulation XIII.

**Trust Funds** are donor-specific financial mechanisms established through formal agreements for a defined purpose, with reporting and cost-recovery requirements.

## Service Provision

Demand-driven, paid services for governments, UN agencies and other partners. These activities also contribute to CSP strategic outcomes, especially by strengthening national systems and supporting humanitarian actors.

**Service Provision Payments** cover the costs of these services through GHQ's management cost recovery (MCR) and Country Office's Direct Support Costs (DSC).

BOTH REQUIRE FULL COST RECOVERY

**03.**

Full Cost Recovery

# General Regulation Article XIII: Contributions

General Regulation XIII governs contributions to WFP and Full Cost Recovery Aspects around it –  
*to ensure that resources are mobilized and used in accordance with WFP's objectives*

## Gen Regulation XIII.1:

*'All **contributions** to WFP shall be on **a voluntary basis**. Contributions may be donated by governments, intergovernmental bodies, other public and appropriate non-governmental, including private, sources.'*

## Gen Regulation XIII.2:

*Donors may contribute appropriate commodities, cash and acceptable services in accordance with the general rules made pursuant to these General Regulations. Except as otherwise provided in such general rules in respect of developing countries, countries with economies in transition and other nontraditional donors, or in respect of other exceptional situations, **each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions.**'*

[Click here for the General Rules and Regulations](#)

# General Rule XIII.4 | Identifies WFP cost categories for FCR and its exceptions/exemptions

## **XIII.4.a)**

Cost categories and calculation of cost recovery

## **XIII.4.b)**

FCR Exemptions

## **XIII.4.c)**

FCR Alternative means for achieving FCR (i.e., "twinning," monetization, and/or resort to General Fund)

## **XIII.4.d)**

Exceptional reduction or waiver of DSC and/or ISC

## **XIII.4.e)**

Non-standard ISC recovery rates

## **XIII.4.f)**

Reporting to the EB on the utilization of the above.

# General Rule XIII.4.a) | Identifies WFP cost categories for FCR

## Extract from General Rule

(a) Unless otherwise regulated in these General Rules, all donors shall provide contributions on a full cost recovery basis, that ensures recovery by WFP of all of the costs of the activities financed by the contribution, employing the following cost categories, as defined at General Rule X.2, and calculation criteria:

- i. transfer and implementation costs, which shall be calculated based on estimated cost;
- ii. direct support costs, which shall be calculated based on country or countries-specific percentages of the transfer and implementation costs; and
- iii. indirect support costs, which shall be calculated based on percentages, determined by the Board, of transfer and implementation costs, and direct support costs.

**Gen. Rule XIII.4.a identifies cost categories for FCR on contributions:**

- transfer & implementation costs,
- direct support costs (DSC), and
- indirect support costs (ISC)

# Example | Full Cost Recovery Breakdown of a USD 5 million Contribution

		Cost Structure		
Direct Costs	 <b>Transfer</b>	Transfer Value	USD 2.7 million	Estimated value of 2,565 MT of mixed commodities
		Transfer Cost	USD 1.557 million	Estimated Costs on a per ton basis (USD610/MT)
	 <b>Implementation Cost</b>	USD 220,000	Calculated as 5.2% of Transfer	
	 <b>Direct Support Costs (DSC)</b>	USD 218,000	Calculated as 4.9% of Transfer & Implementation	
	 <b>Indirect Support Costs (ISC)</b>	USD 305,000	Calculated as 6.5% of Direct Costs	

# General Rule XIII.4.b | FCR *exemptions* to contributions

## Extract from General Rule

'Donors providing cash contributions which are **not designated in any way** or are designated to the Immediate Response Account (IRA) or the Operational Reserve, or contributions to Programme Support and Administrative (PSA) and related activities **shall not be required to provide additional cash or services** to meet full cost recovery in respect of their contributions, provided that such contributions do not result in any additional reporting burden to the Programme.'

## Types of Contributions Exempt from FCR

Contributions *exempt* from paying ISC:

- Cash contributions **not designated in any way**
- Cash contributions designated for the **Immediate Response Account** to **WFP's Operational Reserve**
- any contribution (either cash or in-kind) to **programme support and administrative (PSA)** and related activities (essentially, towards the staffing or operation of global headquarters)

**Conditional to not add any reporting burden to WFP**

# General Rule XIII.4.c | *Alternative means* of achieving FCR (i.e. twinning or monetization) (1/2)

## Extract from General Rule

(c) **Governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board**, may make contributions that do not achieve full cost recovery, provided that:

- (i) the full operational and support costs are covered through contributions by another donor or donors, through the monetization of part of the contribution and/or through resort to the WFP Fund;
- (ii) such contributions are in the interests of the Programme and do not result in any disproportionate administrative or reporting burden to the Programme; and
- (iii) the Executive Director considers that accepting the contribution is in the interests of the beneficiaries of the Programme.

### General Rule XIII.4.c):

- enables WFP to receive contributions where donor does not provide FCR, but
- the contribution still achieves FCR by other means such as by using "*twinning*," monetization,
- and/or resort to General Fund to cover the gap of the insufficient associated costs provided.

WFP has not monetized in-kind contributions since the late 1990's

# General Rule XIII.4.c | *Alternative means of achieving FCR (i.e. twinning or monetization) (2/2)*

## Which types of contributions are eligible for twinning?

### Government donors

'Developing countries' and 'countries with economies in transition' are defined with reference to the countries classified as "**least-developed**", "**low-income**" and "**lower-middle income**" countries by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (**OECD**).

### Other 'non-traditional' donors have been determined by the Board to include:

**private sector donors** – i.e. private sector funds can be received without FCR as long as FCR is achieved through contributions from other donors (without accessing the WFP Fund or monetization). Private sector donors include individuals, foundations, and business/corporations.

**vertical funds** (e.g. the Global Environment Facility and the Green Climate Fund) may be received without full cost recovery, provided that FCR is achieved through contributions from other donors and/or the WFP Fund, without monetization.

# Example | Twinning Arrangement

- Donor A provides 2,565MT of mixed commodities worth USD 2,7million
- The 2,565MT of commodities require a total USD 2.3 million in associated costs, which Donor A cannot provide
- The USD 2.3 million is provided by Donor B, who is willing to provide the necessary associated costs to enable Donor A's contribution

## Cost Structure

		Donor A (USD)	Donor B (USD)	
<b>Direct Costs</b>	 <b>Transfer</b>	2,700,000		<i>In-Kind Commodity</i>
	 <b>Implementation Cost</b>		1,557,000	<i>Transfer Cost (Cash)</i>
	 <b>Direct Support Costs (DSC)</b>		220,000	Cash (5.2% of Transfer)
	 <b>Indirect Support Costs (ISC)</b>		218,000	Cash (4.8% of Transfer + Implementation)
	 <b>Total Costs</b>	2,700,000	2,300,000	Cash (6.5% of all Direct Costs) In-kind + Cash

# General Rule XIII.4.(d) | Exceptions to support costs

Exceptional reduction or waiver of DSC and/or ISC for in-kind contributions (non-food/non-distributed items)

## Extract from General Rule

(d) Exceptionally, the Executive Director may reduce or waive indirect support costs and, where applicable, direct support costs in respect of contributions as shall be determined by the Board, where the Executive Director determines that such reduction or waiver is in the best interests of the beneficiaries of the Programme, provided that:

- (i) such contributions do not result in any additional administrative or reporting burden on the Programme; and
- (ii) in the case of a waiver, the costs otherwise applicable have been determined by the Executive Director to be insignificant.

Reduced or waived support costs (ISC and/or DSC) are determined by the Board and in effect relating to in-kind donations (non-commodity) *to WFP and in particular to operations* such as:

1. **in-kind contributions of personnel** (e.g., stand-by partners) intended to provide WFP with additional capacity;
2. **in-kind contributions of non-food** items (e.g., temporary offices such as tents or containers and related office supplies and equipment; software and licenses; vehicles intended to be gifts).

# General Rule XIII.4.(e) | non-standard ISC rates

The Board has defined **reduced ISC rates (currently 4%) to incentivize contributions from government donors\***

## Extract from General Rule

(e) The Board shall set the indirect support cost rate applicable to contributions from:

- (i) governments of developing countries and countries with economies in transition, as determined by the Board;
- (ii) governments for contributions to programmes in their own countries; and
- (iii) international financial institutions under such conditions as shall be determined by the Board.

The Board defined **reduced ISC rates (currently 4%)** for:

- Governments of **developing countries or countries with economies in transition** may make contributions (as defined by OECD)
- For a government making **contributions to programmes in its own country** (a “host government” contribution)
- Government contributing to programmes in its own country that has sourced its contributions from a third party **IFIs provided that the government:**
  - (i) owns the funds
  - (ii) has instructed the third party to disburse the funds directly to WFP.
- Direct contributions from IFIs can benefit from reduced ISC rate if **IFI allocation** is being made directly to WFP due to the **absence of an internationally recognized or eligible government in that location.**

\* Noting the EB-approved standard ISC rate is 6.5%

# General Rule XIII.4.(f) | Reporting to the EB

WFP reports to the Executive Board Annually on FCR exceptions and exemptions

## Extract from General Rule

(f) Contributions made under paragraphs (c) and (e) above and reductions or waivers granted under paragraph (d), above shall be reported to the Executive Board at its Annual Session.

[Click here for the 2024 report: Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 \(f\)](#)

WFP reports annually to the Executive Board on contributions received, reductions and waivers of costs under General Rule XIII.4 – with a dedicated section on the use of each respective paragraph:

- **General Rule XIII.4 (c):** *WFP reports on the use of twinning including EDMF (Emerging Donor Matching Fund) – it provides the list of donors that had twinning arrangements and USD amounts contributed and twinned.*
- **General Rule XIII.4 (d):** *WFP reports on the use of Waivers of indirect support costs and direct support costs (General Rule XIII.4 (d)). The report includes the list of donors that has the ISC waiver, it includes the value of the contributions and ISC waived.*
- **General Rule XIII.4 (e):** *Reduced indirect support costs for certain types of contributions. WFP reports the contributions received including the type of contribution (e.g. host government or government with economies in transition etc).*

# When considering changes to Full Cost Recovery



Adjustments that would necessitate changes to the FCR application as outlined in the **General Rules** would include reviews/approvals by:

- ✓ FAO Finance Committee
- ✓ ACABQ
- ✓ Executive Board



Adjustments to practices and processes would be within the delegated authority of the Executive Director



Adjustments which would change the FCR principle as outlined in the **General Regulation** would include reviews/approvals by:

- ✓ FAO Finance Committee
- ✓ ACABQ
- ✓ Executive Board
- ✓ FAO Council
- ✓ ECOSOC
- ✓ FAO Conference
- ✓ UN General Assembly



Q&A

Thank you!

