

WFP Executive Board: Method for determining the ISC rate for WFP

Informal Consultation
5 September 2014



World Food Programme

Agenda

- 1. Review of process to date and previous discussions**
- 2. Focus on “Question 3”**
 - Comparison of WFP and wider UN system practices**
 - Factors to consider for potential ISC rate reduction to encourage donations to WFP**
- 3. Management Proposal on South-South cooperation**
- 4. Management Proposal on Host Government contributions**
- 5. Management proposal on Private Sector**
- 6. Summary and Next steps**

1.1 The process to date

1. **ISC rate review first proposed in the Management Plan 2014-2016**
2. **“Method for calculating the Indirect Support Cost Rate for WFP” presented to the Executive Board in February 2014.**
3. **Informal Consultation on 8 May 2014**
 - To provide clarity on rationale for ISC review
 - To seek consensus on Questions 1 and 2

1.2 Key Questions for ISC Study

Question 1: Already discussed – maintain status quo

- WFP is a 100 per cent voluntarily funded organization: should core funding or different funding approaches to cover indirect variable costs be considered?

Question 2: Already discussed – maintain single rate for transparency, simplicity, efficiency

- Should WFP continue with a single indirect support cost recovery rate, or should the rate vary according to the type of intervention?

Question 3: Topic of today's consultation

- Could WFP incentivize resource mobilization through preferential or variable ISC rates, for example for South-South cooperation, or Private Sector?

Question 4: To be analysed by Secretariat

- Recognising that some costs related to support and administration are covered from sources other than the ISC recovery rate, WFP should undertake and present a detailed cost analysis of its indirect costs and review the workings of the PSA Equalisation Account, which serves as a safety net to cushion unplanned fluctuations in ISC recovery. Should WFP continue to consider multiple sources for funding costs such as security and non-recurring investments?

2.1 Question 3:

Q: Could WFP use variable ISC rates to incentivize South-South cooperation, host government contributions, unearmarked contributions, multi-year contributions and private-sector contributions?

May 2013: Informal Consultation

- ***“Management believes there is merit in examining ways to encourage more contributions from non-traditional donors, as well as private donations.***
- ***The practices and experience of other organisations, including their application of ISC rates for donations from such sources, merits review”***

2.2 WFP's Position

➤ Voluntary Contributions

Apply a single ISC recovery rate on all contributions, including South-South cooperation

Consistent with full cost recovery, set at 7% in 2003, and has remained unchanged since then

Well over 90% of WFP's Indirect Support Cost income comes from such contributions

➤ Trust Funds

A rate of 4% may be applied where a trust fund activity is planned and resourced in-country (i.e. host country contribution) and will be executed and managed in-country as well. Rationale: a lower rate is consistent with full cost recovery as a lower level of programme and administrative support is required from the regional bureau and headquarters.

➤ Private Sector

Consistent with the full cost recovery principle, 2013 policy paper required the rate charged to private sector partners to reflect the support and operational costs of partnerships. The average rate was expected to be approximately 12%.

2.3 The wider UN System: where does it stand?

Movement towards harmonisation in UN system

- ✓ Joint standard programme support cost rate of 8%
- ✓ Maintain that the principle of harmonised rates will also apply to differentiated cost-recovery rates, aiming to promote collaboration among UN organisations and avoid competition in mobilising resources
 - 7% on all contributions to Thematic Funds (but UNWOMEN remaining at 8%)
 - **Agreed to maintain the existing preferential rates for government cost-sharing, South-South contributions and private-sector contributions**

2.4 South-South cooperation

“A process whereby two or more developing countries pursue their individual and/or shared national capacity development objectives through exchanges of knowledge, skills, resources and technical know-how, and through regional and interregional collective actions, including partnerships involving Governments, regional organizations, civil society, academia and the private sector, for their individual and/or mutual benefit within and across regions.”

United Nations Office for South-South Cooperation

Entity	ISC or Support Cost Recovery rate
WFP	7% on all contributions
Funds and Programmes	May be as low as 3%, but on average 4-5% NB: Largely in development context
Specialised Agencies	Focus on capacity building and knowledge transfer. No uniform model. Example of 5-7%

2.5 Host Government contributions

Contributions by governments of developing countries to WFP to assist them in implementing activities within WFP's technical mandate in the same country.

Entity	ISC or Support Cost Recovery rate
WFP	7% on all contributions 4% on locally-generated trust funds
Funds and Programmes	No special position beyond treating them at the same level as South-South Cooperation i.e. as low as 3%, on average 4-5%
Specialised Agencies	No uniform model

2.6 Private Sector contributions

Donors include private individuals, independent foundations and corporations and corporate foundations.

Entity	ISC or Support Cost Recovery rate
WFP	Varies between type, size and complexity of private sector donation Average rate approximately 12%
Funds and Programmes	No harmonised policy regarding treatment of contributions. Examples of rates ranging from 5%-8% dependent on the type of contribution
Specialised Agencies	No uniform model

2.7 WFP's contribution history – 2009 - 2013

Confirmed Contributions by Pillar ^[1] (in USD million) 5 Years Trend ^[2]						
	<u>Pillar</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1a	Host Governments	82	119.8	61.6	167.8	153.4
1b	Unique Host Governments	63.8	66.7	44.6	138.4	116.7
2a	SSC - BRICS	60.3	62.1	143.2	131.3	85.7
2b	SSC - Other streams	6.1	18.2	5.1	5.8	6.5
2c	SSC - Middle East	34.9	106.3	78.8	39	99.5
3	Multi-Donor Funds	217.8	209	203.8	223.1	224.9
4&5	OECD and DAC	3536.6	3209.9	3133.8	3359.5	3772.2
6	Private Donors	103.8	141.5	85.3	65.2	84.7
Grand Total*		4023.3	3813.8	3694.6	3962.3	4390
Share of Pillars 4&5 in Grand Total		88%	84%	85%	85%	86%

NB: Grand total is not equal to the total of individual pillars due to the inclusion of some donors in multiple pillars.

^[1] I Country-led, Resources from Host Governments; II Emerging Economies, the Gulf, Middle East, BRICS ; III UN, Multi-Donor and Thematic Funds (MDG, CERF, GEF, Peace-building); IV New Channels from OECD Donors (EU Food Facility, WB GAFSP, Bilateral Desks, Debt Swap, Twinning); V Maintaining the Current Base of Donors and working to minimize donor conditionality
VI Private Sector.

^[2] Source: WFP Government Partnership Division (PGG), August 2014

2.8 What are the potential factors to consider for potential ISC rate reduction to encourage donations to WFP?

- Harmonisation
- Equity amongst donors
- Additional funding that might realistically be mobilized
- Foregone ISC income arising from lower ISC rates matched against the increased ISC income that would result from increased volume of funding
- Possible complexity (or simplicity) in applying lower ISC rates

2.9 General Reflections on potential factors

Harmonisation

- **QCPR** “*acknowledges that United Nations organisations have different business models and mandates and that this implies that their funding structures differ*”
- **ACABQ** “*noted that the methodology for the determination of recovery rates for programme support cost is not uniform among UN system organisations and that the requirement.....varies accordingly to the Mandates and the nature and scope of operational activities undertaken*”

Additional volume of funding through reduced ISC rates

- WFP report: “*most donor decisions that were related to the apportionment of food aid resources..... were made on programmatic and policy grounds rather than being based on a comparison of support costs*”
- Wider UN system experience indicates that funding follows mandates and performance

Consequently:

- Lower ISC rates could imply lower overall ISC income

3. Management Proposal on South-South cooperation

Recall WFP policy: 7%, no preferential treatment. But tools exist to exceptionally give preferential treatment.

General Regulation Article XIII.2 (Regulations approved by GA and FAO Conference)

- *Donors may contribute 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 non-traditional 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.*

General Rule XIII.4 (f) (Rules approved by the Board and submitted for information to ECOSOC and FAO Council)

- *Governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board, may make contributions of commodities or services only, provided that:*
 - ✓ *the full operational and support costs are covered by another donor or donors, by the monetisation of part of the contribution and/or by resort to the WFP Fund;*
 - ✓ *such contributions are in the interests of the Programme and do not result in any disproportionate administrative or reporting burden to the Programme; and*
 - ✓ *the Executive Director considers that accepting the contribution is in the interests of the beneficiaries of the Programme.*

Management Proposal: To maintain the 'status quo'

4. Management Proposal on Host Government contributions

Recall WFP policy: 7%, no preferential treatment. 4% if contribution is to a Country-Specific Trust Fund.

Recall: the lower 4% rate is consistent with full cost recovery as a lower level of programme and administrative support is required from the regional bureau and headquarters.

Recall wider UN system practice: Funds and Programmes and Specialized Agencies charge in the range of 4-7%

Management Proposal: To maintain the 'status quo'

5.1 Management Proposal on Private Sector

As part of the 2013 Private Sector Partnership and Fundraising Strategy (2013-2017), WFP committed to:

“ensure that private sector donors provide sufficient cash to cover the management and administrative costs related to their contributions.....under no circumstances would the rate applied to a private sector partner fall below the established indirect support cost”.

WFP rate charged to private sector partners varies between type, size and complexity of private sector donation.

5.2 WFP Private Sector ISC Rate (effective June 2013)

	Standard rate	Discounted rate
Corporations	20%	12%
Individuals	15%	15%
Foundations / NGOs	15%	10%
Funds raised by country offices	12%	10%
<i>Size of donation</i>	if Small	if Large
+		
Partnership complexity	Individualisation of reporting Additional communication effort Other additional effort	Standard reporting No additional communication effort No other additional effort

The average rate was expected to be approximately 12%

5.3 Management Proposal on Private Sector

Recall 2013 strategy: *“The rates charged to private sector partners will be evaluated and adjusted to reflect costs and market dynamics in accordance with the commitment to cover management and administrative costs”*

Overview of Private Sector revenue and fundraising cost

- Since 2012, private sector revenues raised have increased by 72% (total revenue projected to be USD 110 million in 2014)
- Compared with 2012, private sector support and operational costs have declined by USD 500,000.

Summary of WFP’s experience in implementing ISC rate matrix

- Implementation of the private sector donor rate matrix has resulted in inefficiencies and unnecessary costs
- This is not resulting in transparent internal and external communications regarding the cost of partnering with WFP

Management Proposal: Consistent with policy to cover management and administrative costs of private sector contributions and for increased efficiency and transparency, a single private sector donor rate of 10% is proposed for all private sector donors.

6.1 Summary of Management Proposals

- ✓ South-South cooperation: Maintain 'status quo'
- ✓ Host Government contributions: Maintain 'status quo'
- ✓ Private sector: In accordance with Partnership and Fundraising Strategy (2013-2017), **10%** single private sector donor rate is proposed

6.2 Next Steps

- **Your feedback on the current presentation**
- **At EB.2/2014, presentation of document for consideration covering questions 1, 2 and 3**
- **Question 4:WFP should undertake and present a detailed cost analysis of its indirect costs and review the workings of the PSA Equalization Account.....**
 - Commence detailed cost analysis in Q4 2014
- **Work to continue in Q4 2014, including additional informal consultations, leading to final paper for decision in Annual Session 2015**