



Information Note on Multiple ISC Rates relating to the ISC Review

Financial Seminar of the Executive Board

1st February, 2014

Purpose

This Note for Information was requested at the informal seminar of the Executive Board on 29 January 2014. It concerns the question raised in paragraph 44 of the EB document **Method for calculating the Indirect Support Cost rate for WFP (WFP/EB.1/2014/4-B/1)** regarding the continued use of a single ISC recovery rate for all programme categories or a move to variable rates. This paper outlines the considerations which led WFP to adopt a single cost recovery rate for all contributions for full cost recovery in 1998, and summarizes corresponding cost recovery rate practices in some other UN organizations.

1. ISC Rates Overview - Current Policy

WFP applies the principle of full cost recovery to all contributions. Each donor is expected to meet full operational costs and all direct and indirect support costs in its contributions. The Indirect Support Cost (ISC) recoveries on projects are used to fund the Programme Support and Administrative (PSA) budget.

The 1998 Report of the Formal Working Group on the Review of WFP's Resources and Long term Financing Policies (WFP/EB.3/98/4D) recommended the adoption of a single ISC rate for all programme categories. The single rate should be determined by applying the approved Programme Support and Administration (PSA) budget to the projected Direct Operating Costs (DOC) and Direct Support Costs (DSC) of the activities for the biennium. This recommendation was based on the following findings of the Working Group:

- WFP would have to take a high risk of incurring DSC expenditures when donors may or may not direct their contributions.
- The different rates of ISC for each programme category are administratively expensive to set and operate.
- Recovery of the PSA budget is vulnerable to fluctuations in the distribution of contributions across programme categories because of their different ISC rates.
- The PSA budget for any particular period may still not be fully recovered when there are significant variations in the proportion of resources provided to the different programme categories.

The 1998 report further stated: "A uniform Country Office (CO) structure funded by ISC in all countries would imply that any other CO support costs specific to WFP activities in the countries would be funded from DSC, be these of a development or relief nature. ISC would be spent on executive management, administration and programme support

of a shared nature at headquarters, and regional and country offices. It should be noted that WFP's divisional and staff responsibilities at headquarters or in regional offices, whether in operations, resource management, technical support, evaluation, or finance and administration, are not divided into the categories of development and relief."

For 16 years, WFP has successfully applied a single ISC rate across all programme categories and activities. In 1998 the rate was set at 7.8%, and then reduced to 7% in 2003.

2. UN Cost Recovery Models

2.1 Cost Recovery Rates for Programme Support and Administration Costs

It is important to note that there are differences in the way that the programme support and administrative budgets are funded in UN agencies. WFP practices full cost recovery on all of its contributions, and unlike other UN entities, it receives no core funding or assessed contributions. As such, the PSA is supported entirely by the ISC rate of 7%.

Table 1 provides an outline of the nature of funding for a selection of the larger United Nations entities, and the standard recovery models and rates that they use. Cost recovery rates vary between 7% and 13% in comparable UN entities, sometimes applied by the comparable institution as a single rate for all programme categories while in other entities it varies by programme category. It should be noted that these cost recovery rates only reflect policy-level rate decisions.

Table 1. Funding Structure and ISC Policies of some of the larger UN Entities

Financial Structure	Financial Model	Type of Entity	UN Entity	Assessed /Regl.	Voluntary/Other ¹	
				USD Million	USD Million	Standard Cost Recovery rate
Assessed	Assessed Contribution Model	Specialized Agency	FAO	1,005 ²	emerg: 703 suppl.: 734	10% 13%
			WHO ³	474	1,636	7% for specific emergencies. 13%
Voluntarily Funded	Core Resources Model ⁴	Programme (regular)	UNDP ⁵ (harmonized)	2,089	8,994	8%
		Fund (regular)	UNFPA ⁶ (harmonized)	971	1,468.2	8%
			UNICEF ⁷ (harmonized)	1,284	2,658	8%
		Commission	UNHCR ⁸	0	1,369	Unrestricted
	0			948.9	Project Specific	
Full Cost Recovery Model	Programme	WFP	0	4,332.0	7%	

¹ Most Agencies have variant rates for thematic areas of focus (see Section 2.2), or for specific class of donor e.g. host government). All accommodate a 7% rate for ECHO.

² FAO Programme of Work & Budget 2014-15.

³ Administration and management cost study, Report by the Director General, World Health Assembly, 12 April 2013; EBPBAC18/3.

⁴ Core Resources are used interchangeably by organizations to discuss regular resources for funds and programmes, and assessed contributions for specialized agencies.

⁵ Table 1b. Integrated resources plan 2014-2015, compared to 2012-2013; UNDP Integrated Budget estimates for 2014-2017, Executive Board of the United Nations Development Programme, 12 July 2013; DP/2013/41.

⁶ Summary Table 1: Integrated resource plan, 2012-2013- plan versus actual/estimated; Executive Board of the United Nations Population Fund, 24 June 2013, pg. 28; DP/FPA/2013/14.

⁷ Overview of UNICEF Financial Management, Orientation Session for EB Members, UNICEF, 14 January 2014.

⁸ Table 3, Summary of contributions for 2012, UNHCR Global Report 2012, pg. 107.

2.2 Harmonized Cost recovery rates (UNDP, UNICEF, UNFPA, UNWomen):

Starting in 2014, UNDP, UNICEF, UNFPA and UNWomen have adopted harmonized cost recovery rates.⁹ However, within the harmonized rates¹⁰ there are a number of approved variations¹¹:

- 8% Cost Recovery Rate for Harmonized Cost Classification Categories¹²
- Harmonized 1% reduction for thematic funds for UNDP, UNICEF, UNFPA (UN Women maintains 8%).

3. Differentiated Cost Recovery Rates

3.1 Model Description

A differentiated cost recovery rate implies that WFP would agree with the Board to set separate ISC rates for each programme category (EMOPs, PRROs, and CP/Dev SOs) and/or activity (e.g. cash and vouchers, school feeding, etc.). The funding forecast would need to be devised based on programme category and/or activity to determine the basis for the cost recovery. The PSA budget would then need to be broken down by support provided to each programme category. The last detailed study in 1997 approximated a 30%/70% breakdown between emergency assistance and development. This was again confirmed in 2002.

3.2 Implications for Donors

In order to shift to multiple rates, Board members would have to agree on the following:

- Costing model for each project category or activity;
- Applicable rates for each project category or activity;
- A split of PSA costs incurred at HQ and Regions, between categories or activities.

⁹ Roadmap to an integrated budget: joint review of the impact of cost classifications of activities on the harmonized cost recovery rates, Joint Executive Board of UNDP, UNFPA, UNICEF, and UNWomen, 16 January 2013; DP-FPA/2013/1-E/ICEF/2013/8.

¹⁰ Additionally, the funds and programmes will maintain existing preferential rates for government cost sharing, South-South contributions and private sector contributions.

¹¹ Decisions adopted by the Executive Board in 2013, First Regular Session, Executive Board of the UNDP, the UNFPA, and UNOPS, pg.11; DP/2014/2.

¹² *Endorses* a general, harmonized cost recovery rate of 8 percent for non-core contributions that will be reviewed in 2016, with the possibility of increasing the rate if it is not consistent with the principle of full cost recovery, proportionally from core and non-core resource funding sources, as mandated by the quadrennial comprehensive policy review of operational activities for development of the United Nations system; and decides that the review of the cost-recovery rate will take place after the analysis and independent assessment mentioned in paragraphs 15 and 17' Ibid, pg. 11.

3.3 Governance and Administration

As noted in WFP's 1998 Report of the Formal Working Group on the Review of WFP's Resources and Long term Financing Policies, a single rate is easy to understand and administer. WFP presently applies minor variants for private sector and country office trust funds. Changing the singular rate model to a differentiated cost rate model would require a number of actions from the Secretariat including: WFP's IPSAS-compliant financial statements would need to be certified for each individual programme category or activity.

4. Conclusions

As noted in table 1, the other main agencies – with the exception of UNHCR - have either assessed contributions or core resources, which allow them to cover a portion of their PSA costs. UNHCR, while getting an allocation from the UN, allocates and recovers all other costs to projects and activities.

All other similar funds and programmes employ variants, which allow them to apply a harmonized recovery rate of 8% (though as noted in Section 2.2 they apply some variations for specific activities).

Of the agencies reviewed, WFP is unique in covering its Programme Support and Administrative budget wholly through an indirect support cost charge on all contributions.

The FAO Finance Committee “felt that the continuation of a single ISC rate for all programmes and activities would be beneficial for all stakeholders for reasons of simplicity and transparency, and that a single rate would avoid the risk of promoting use of less appropriate programme categories.”