

ISC Rate Review

Discussion of Core Resources Model and Differentiated ISC Rates by Type of Intervention

Informal Consultation: 7 May 2014



World Food Programme

Context for today's discussion

The Secretariat has benefitted from members' feedback on the ongoing ISC Rate Review:

- Initial feedback from the FAO Finance Committee in January
- Informal consultation with the Executive Board in January, with subsequent information notes issued by the Secretariat
- Report from the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in February
- Executive Board meeting in February

Taking into consideration the comments / questions we have heard so far, the goal of this discussion is to:

- 1 Address the relevance of a 'core resources' model and differentiated ISC rate for WFP
- 2 Offer the Secretariat's viewpoint on these issues – recommendation in both cases is to stay with current model

Agenda

Overview of funding models and ISC rates applied by funds & programmes

- Core resources model
- WFP model

Secretariat recommendation

‘Core resources’ are a unique funding type – important to understand what they are and how they function

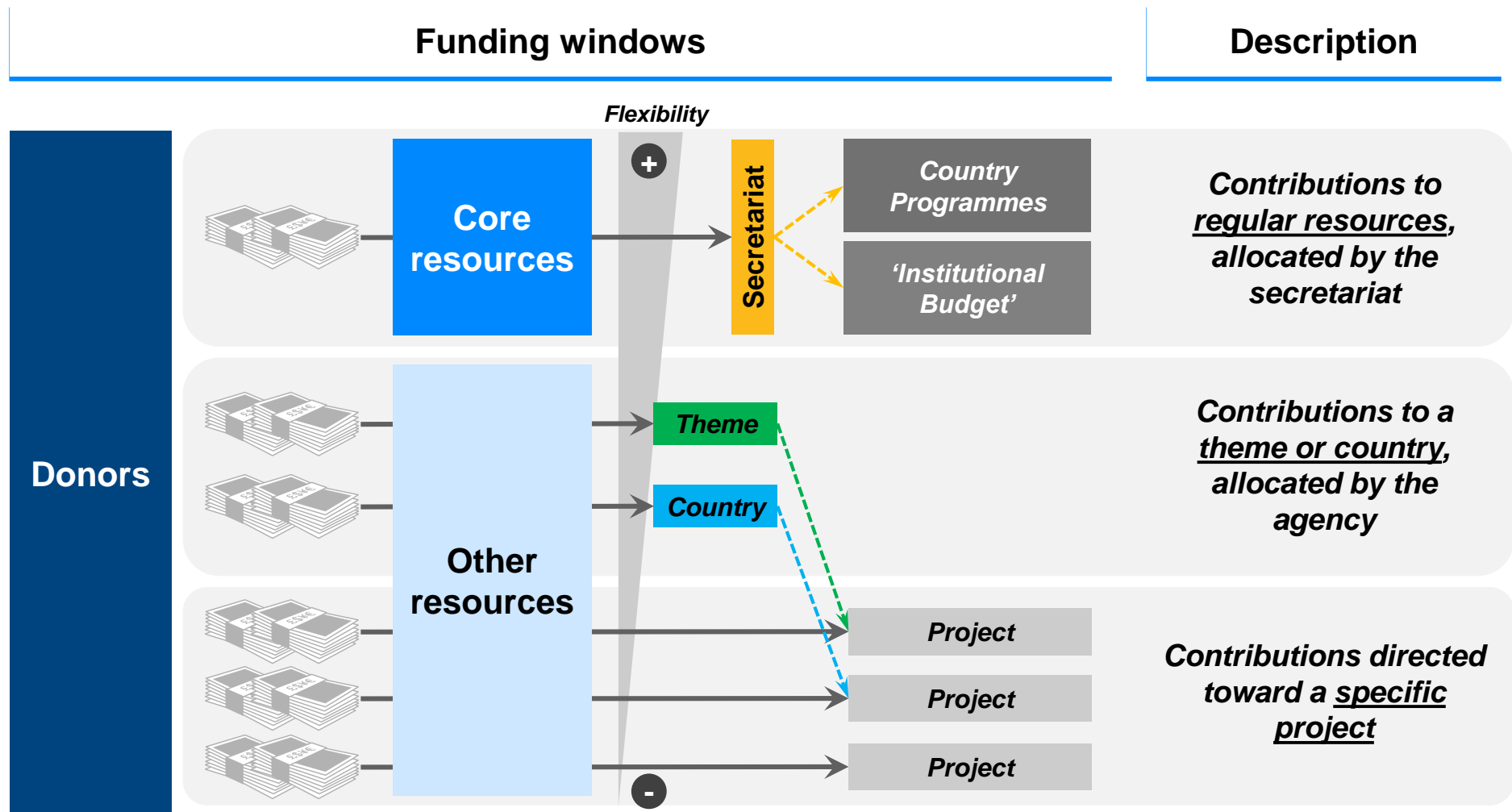
What core resources are

- ✓ A specific classification of unrestricted voluntary funds
- ✓ Used to support country-level programming as well as administrative overhead / institutional investments
- ✓ Also known as “regular resources”

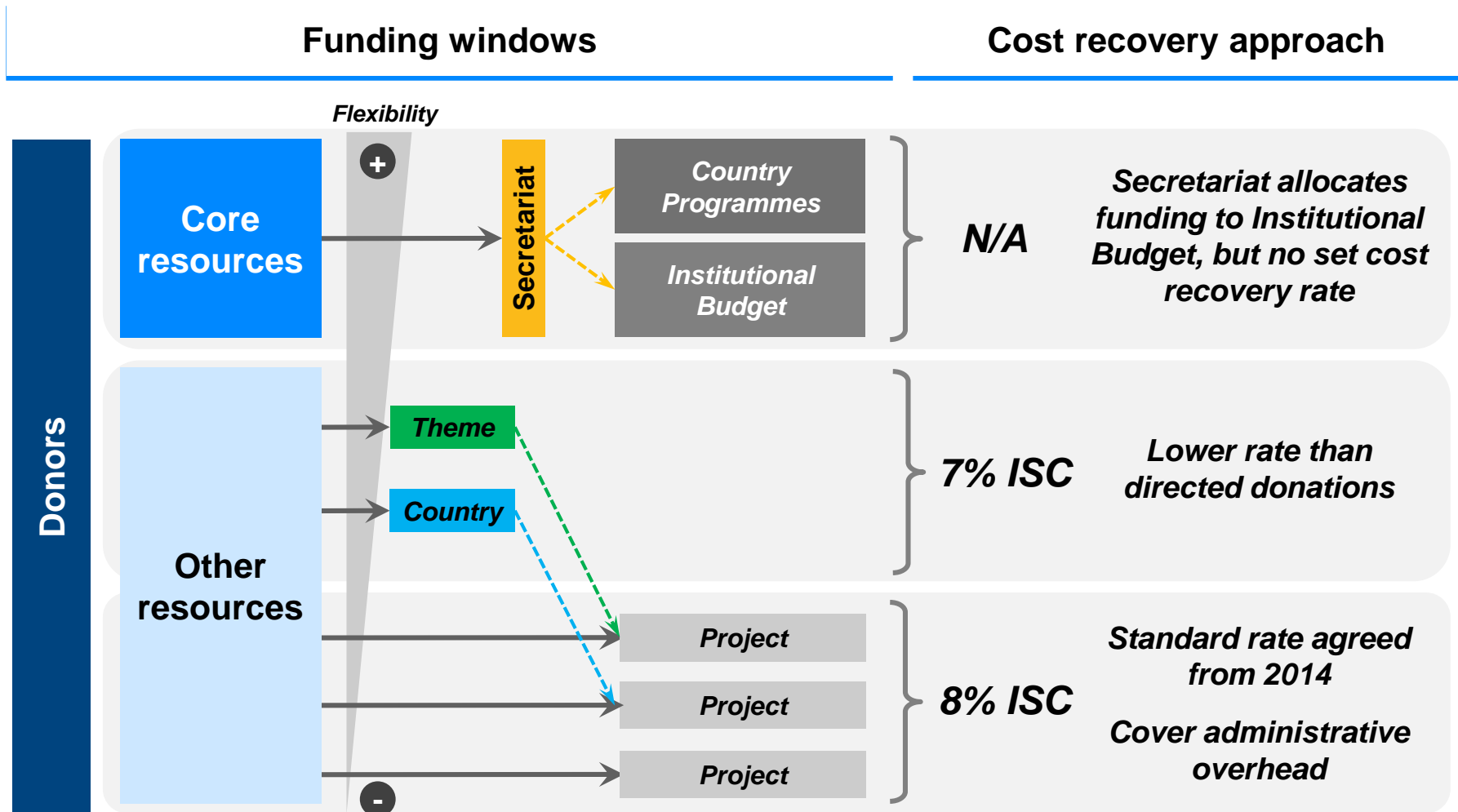
What core resources are NOT

- ✗ Assessed ‘mandatory’ contributions such as those charged to member states by specialized agencies
- ✗ Funds directed or ear-marked by donors

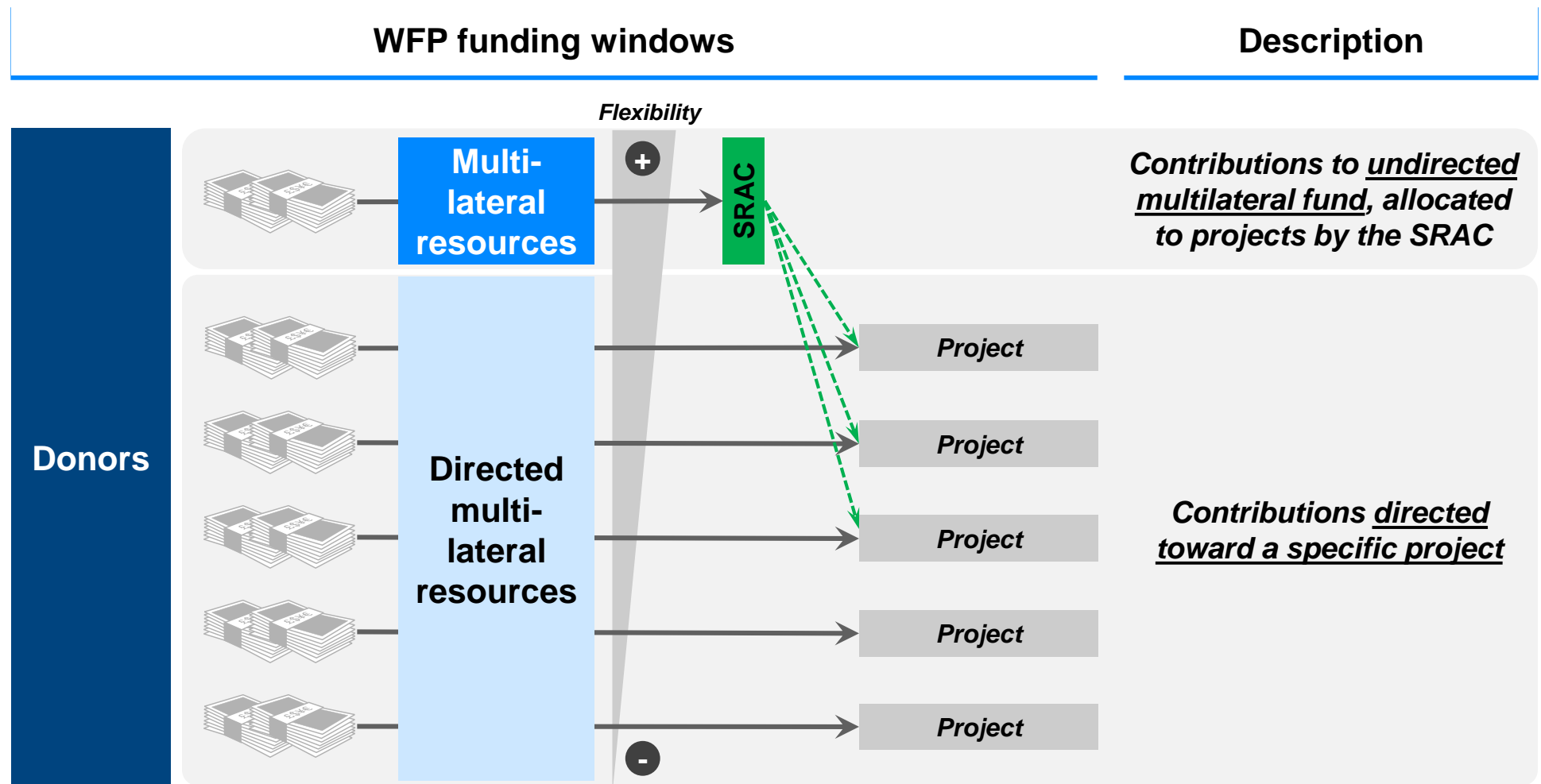
Other funds and programmes have ‘core resources’ for programmes and ‘other resources’ for projects



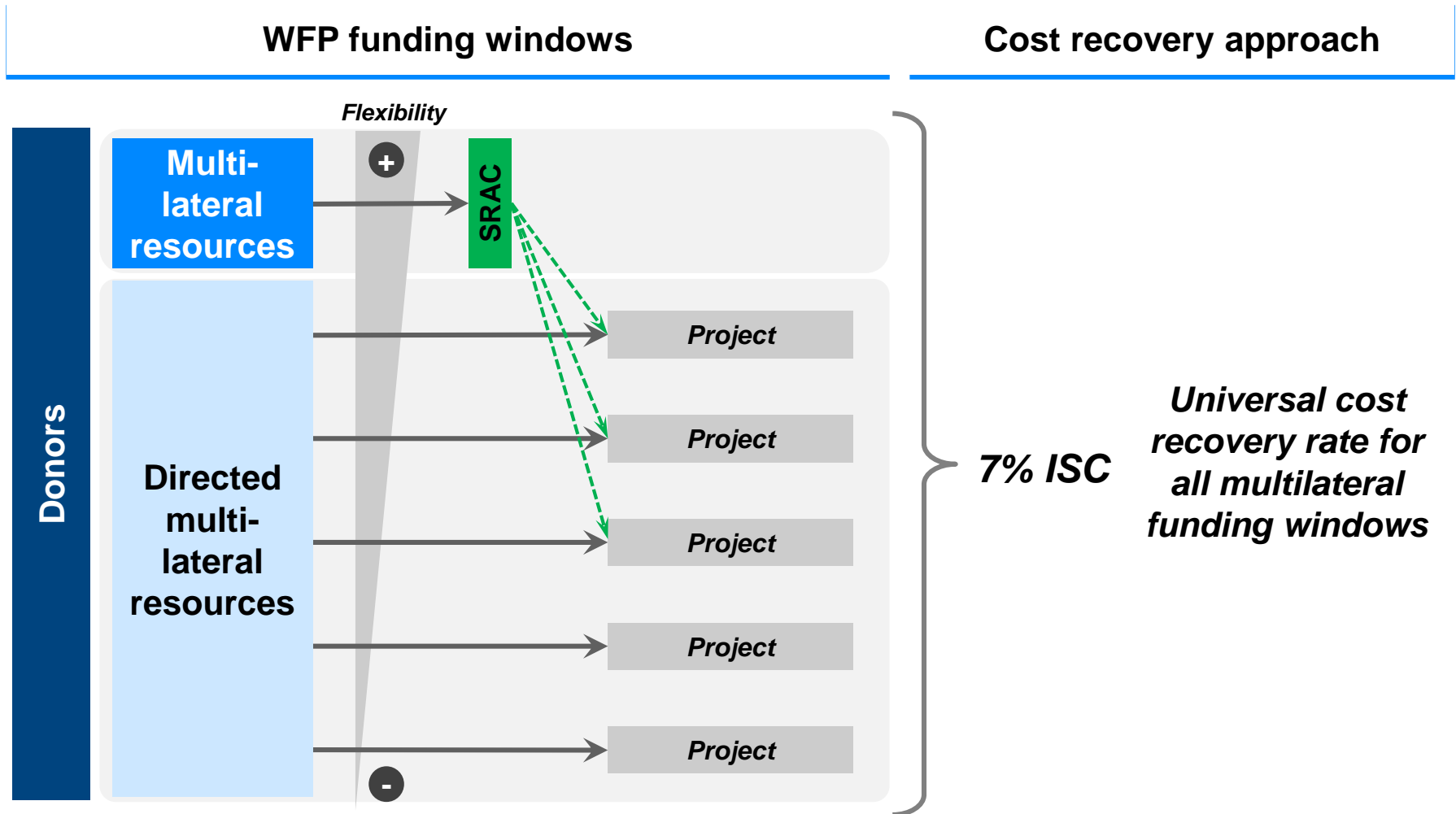
Other funds and programmes with 'core resources' also have different cost recovery approach for each funding window



WFP's funding model highly 'projectized'



WFP's standard cost recovery rate applies to all WFP donations, regardless of their funding window



Agenda

Overview of funding models and ISC rates applied by funds & programmes

- Core resources model
- WFP model

Secretariat recommendation

The Secretariat believes that a transition to a core resources model with a differentiated ISC rate is not desirable for WFP

- Addition of 'core resources' funding window would **decrease transparency** of existing financial model
- Converting existing processes, procedures and systems would **require significant time and resource investment**
- Increase in funding windows with differentiated ISC rates by type of intervention would **create additional complexity** for donors
- **Potential to create perverse incentive** in favour of programme categories with lower relative ISC rates

Additional information and analysis can be found in the Appendix and previously issued Information Notes

This viewpoint is aligned with the guidance from the Finance Committee, ACABQ and Executive Board

Recommendation / Guidance

Finance Committee

- Do not support transition to a core resources model for WFP, as it may drive inefficiency
- Stated that continuation of a single ISC rate is best for simplicity and transparency, and to avoid the risk of promoting the use of less appropriate programme categories

ACABQ

- Noted that organizations within the UN system will likely require different ISC rate methodologies, depending on their mandate and scope
- Recommended that the ISC recovery rate should “be commensurate with the actual requirements for the reimbursement of programme support and administrative costs attributable to the implementation of projects”

Executive Board

- The Board also took note of the Comments of the ACABQ and FAO Finance Committee
- EB ‘took note’ of the Method for Calculating an ISC Rate for WFP and looked forward to further analysis based on discussions

Therefore, the Secretariat recommends that WFP maintains its current funding model with a single ISC rate

Maintain current funding model

WFP should maintain its current funding model of multilateral and directed multilateral funding windows

No transition to 'core resources' model

Maintain single ISC rate

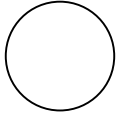
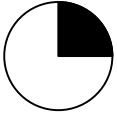
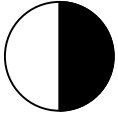







WFP should maintain a single ISC rate across its funding windows

No transition to differentiated ISC rate

Based on views already expressed by members, Secretariat seeks confirmation of these recommendations

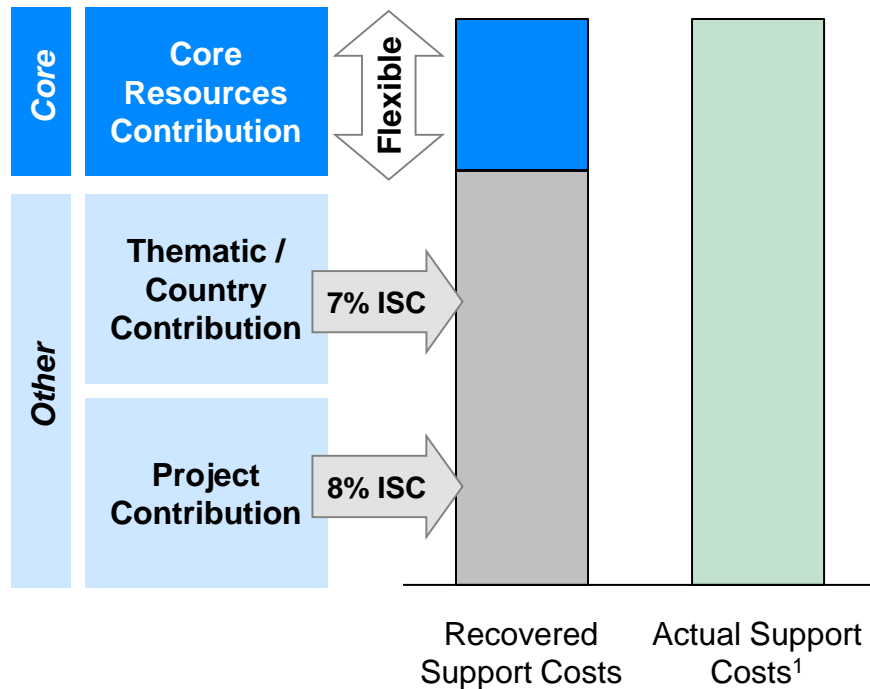
Appendix – Additional information on the Secretariat’s viewpoint on the core resources model and differentiated ISC rates by type of intervention

WFP model allows for greater transparency, but less flexibility in allocation of contributions

Core resources funding model		Level of restrictions	Transparency	WFP funding model		Level of restrictions	Transparency
Core	Core Resources Contribution			Multilateral Contribution			
	Thematic / Country Contribution				Directed Multilateral Contribution		
Other	Project Contribution						

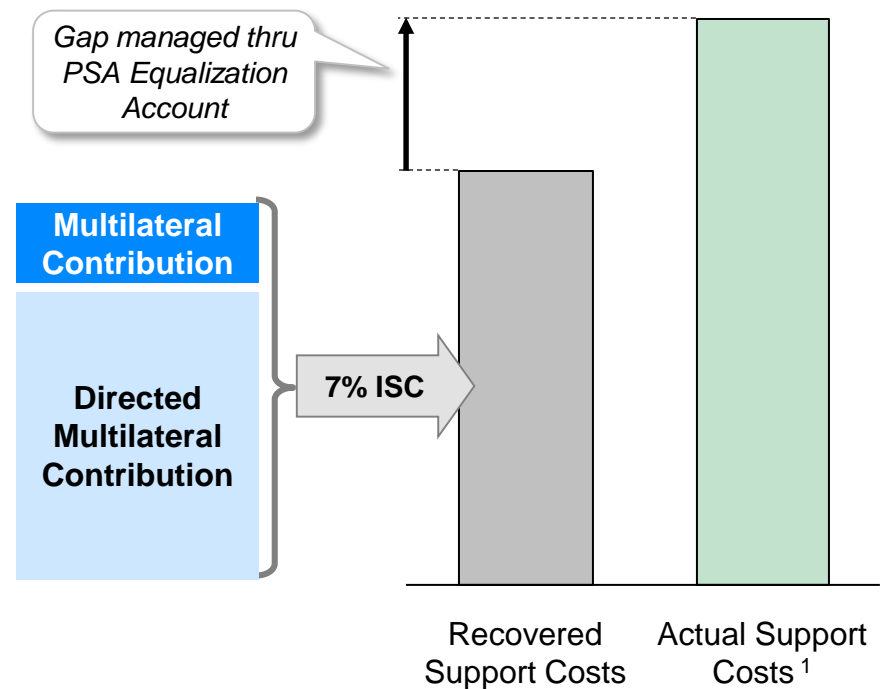
Core resources provides greater stability, while WFP relies on less predictable income from fixed ISC rate

Core resources funding model



Provides for funding stability from year to year and enables multi-year project planning

WFP funding model



Support costs entirely depend on project funding levels, hindering multi-year planning

Transitioning to a core resources model would require significant changes across WFP's financial infrastructure

Overhaul of financial and legal regulations

- Financial Regulations would need to be restructured, requiring EB approval over a significant period of time;
- Legal definitions and obligations for new / existing funding windows would require re-drafting and approval
- Legal restructuring of documents and policies across organization

Redesign of resource management systems and processes

- Budgeting documents and process would require fundamental re-working
- Budgeting process conducted over a longer time horizon than 3 years, with potential implications for donor relations
- Internal financial systems would require overhauling to meet needs of redefined financial regulations

Development of new programme types

- Multi-year programmes to be funded through core resources window would need to be developed in addition to existing programme categories
- Process for allocating resources to new programmes to be created

Instead of adopting 'core resources', WFP should pursue other areas of work to improve the robustness of our model

**Multilateral /
multiyear
funding**

Increased multilateral and multi-year commitments could improve overall funding flexibility and stability

**Financial
Framework**

Changes stemming from the Financial Framework aimed at supporting greater flexibility, predictability and transparency may help to improve overall stability in the financial model