

# Reviewing the Indirect Support Cost model for WFP

Executive Board  
Rome, 11 February 2014



**World Food Programme**

# Indirect Support Cost (ISC) rate review highlights

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- 1. Objectives of, and approach to, the review**
- 2. Background**
- 3. Issues for EB guidance**
- 4. Next steps**

## Objectives for, and approach to, the review

# Objectives of the ISC Review

- 1** Frame WFP's ISC policies to support the Strategic Plan and the Management Results Framework
- 2** Ensure the ISC model can cover Programme Support and Administrative (PSA) needs at different funding levels
- 3** Agree on a simple and transparent method for calculating and applying ISC taking due account of QCPR and developments in the UN

# Approach to the ISC Review

## A two-phase approach:

- Current phase – seek Executive Board guidance on the 4 questions, building on:
  - Feedback from the Finance Committee
  - Input from the ACABQ
  - Input from the informal Resource Management seminar
  - Notes for information provided to Board members
- Second phase – further analysis based on feedback

# Background

# Evolution of Indirect Support Cost policies in WFP

- ➔ 1995 CFA recommended adoption of the **full cost recovery principle**
- ➔ 1998 EB adopted:
  - Simplified ISC model, with a **single ISC rate of 7.8 per cent**
- ➔ 2002 ISC review:
  - Established the **PSA Equalization account** to even out income fluctuations; and
  - Reduced **the single ISC rate to 7.0 per cent**
- ➔ 2006 ISC review recommended that the ISC rate be based on **actual audited results**
- ➔ **Single rate** has been in use for 16 years (**7% ISC rate since 2003**)

## Issues for guidance



# Issues for guidance

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- 1 Funding model for PSA costs**
- 2 Implications of ISC for the shift to food assistance**
- 3 Resource mobilization considerations**
- 4 ISC versus other funding sources**

# Funding model for PSA Costs

## Key Question:

➔ Is there interest in supporting a move towards a core budget for WFP?

**Resource Management Seminar:** Note for information provided clarification on key concepts

## Finance Committee feedback:

*“... that a core budget model for WFP would not be supported ...”*

## ACABQ feedback:

*“Methodology for the determination of the recovery rates [...] is not uniform among United Nations system organizations”*

# Implications of ISC for the transition to Food Assistance

## Key Question:

➔ Should WFP continue with a single ISC recovery rate for all programmes and activities?

**Resource Management Seminar:** Note for information provided clarification on key concepts

## Finance Committee feedback:

*“Continuation of a single ISC rate for all programmes and activities would be beneficial for WFP”....“for reasons of simplicity and transparency, and a single rate would avoid the risk of promoting use of less appropriate programme categories”*

## ACABQ feedback:

*“Methodology is not uniform among UN organizations. Recovery rate should be commensurate with actual costs.”*

# Resource mobilization considerations

## Key Question:

➔ Could variable ISC rates incentivize South–South cooperation, host government contributions, unearmarked contributions, multi-year contributions and private-sector contributions?

## Finance Committee feedback:

*“Lower ISC rates could incentivize certain donors including the private sector and through South-South cooperation”; “More information and analysis was required [...], including the practices of other UN organizations.”*

# ISC versus other funding sources - Questions

## Key Questions:

- ➔ How should ISC be interpreted and what should be the scope of PSA funding?
- ➔ Should WFP continue to consider multiple funding sources for: security, capital costs, or innovations?

# ISC versus other funding sources – Phase II

## Phase 2 Analysis - Subject to feedback from Board members:

- Review cost classification practices in UN system to determine scope for harmonization
- Revisit how ISC and DSC are interpreted and charged in WFP
- Review recovery mechanisms and how to reduce the dependency on unpredictable funding sources
- Confirm an appropriate PSA Equalization Account target level
- Propose guidelines for the use of the unearmarked portion of the General Fund and PSA Equalization Account surpluses

# Proposed Next Steps

- 1. Seek EB feedback, as Finance Committee recognised that subsequent analysis is dependent upon the feedback**
- 2. Informal Consultations in April and May to share further analysis and seek additional inputs**
- 3. Aim for ISC Review to be submitted for Approval at Annual Session**
- 4. November Board Session: 2015 ISC rate set through the normal approval process for the 2015-2017 Management Plan**

**Thank you**