

# Reviewing the Indirect Support Cost Rate for WFP

**RM Seminar**  
**Rome, 29 January 2014**



**World Food Programme**

# ISC Rate Review Highlights

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- 1. Objectives of the Review**
- 2. Background**
- 3. Drivers for the 2014 ISC Review**
- 4. Issues for EB Guidance**
- 5. Next Steps**

# Objectives for the Review

# Objectives of the ISC Review

- **Frame WFP's ISC policies to support the Strategic Plan and the Management Results Framework**
- **Ensure the ISC rate is sufficient to cover Programme Support and Administrative (PSA) needs at different funding levels**
- **Agree a simple and transparent method for calculating and applying ISC**
- **A two-phase approach is proposed:**
  - First phase - outline the current thinking and the questions that will shape the discussion
  - Second phase - draw conclusions and make recommendations

# Background

# Evolution of Indirect Support Cost policies in WFP

- 1995 CFA recommended the adoption of the **full cost recovery principle**
- 1998 EB recommended a **single ISC rate of 7.8 per cent** as part of the review of **Resources and Long Term Financing Policy**
- 2002 ISC review established the **PSA Equalization account** and set the **ISC rate at 7.0 percent**
- 2006 ISC review recommended that the ISC rate be based on **actual audited results**
- **7% ISC rate** has been retained since **2003**

# Drivers for the 2014 Indirect Support Cost Review

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- **Quadrennial Comprehensive Policy Review (QCPR) and harmonization**
- **Resource mobilization**
- **Maximizing value for money**
- **Adapting to WFP's changing financial framework**



# Quadrennial Comprehensive Policy Review (QCPR) and UN harmonization

## 2012 -2016 QCPR seeks:

- **Transparent, harmonized, cost recovery framework based on full cost recovery from core and non-core resources**
- **A common definition of operating costs and a standard system of cost control**
- **Agreement on defining a critical mass for core resources**

## Harmonization among other agencies

- UNDP, UNICEF, UNFPA, UN Women have a common cost recovery framework and rate starting in 2014
- FAO & WHO are reviewing their cost recovery methods (e.g. differentiated rates for emergencies and development; “cost recovery uplift” as part of staff costs)

# Resource Mobilization

- **Desire for more flexible and multi year contributions**
- **Changing environment from traditional donors to non-traditional donors along with differing criteria and needs:**
  - Host governments
  - South-south cooperation
  - Private Sector
  - Multi Partner Trust Funds

# Maximizing Value for Money

- **PSA levels and the ISC rate are regarded as a proxy for efficiency**
- **But benefits of PSA expenditures are often reflected in more cost effective project operations**

For example: Supply chain initiatives funded through PSA can improve delivery times and reduce project costs.

# Adapting to WFP's Changing Business Environment

- **Continual shift from food aid to food assistance**

For example:

- Less procurement and transportation of food
- Increase in non-food activities such as cash and vouchers and capacity augmentation

# Issues for Guidance

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- **Funding Model for PSA costs**
- **ISC versus other funding sources**
- **Implications for ISC for the shift to food assistance**
- **Resource Mobilization considerations**

# Funding Model for PSA Costs

## Key Questions:

- **Is there interest in supporting a move towards core budget for WFP?**
- **In the absence of support for core funding is there value in considering different approaches for fixed and variable indirect costs?**
- **Additional material provided for information at this informal seminar**

## Phase 2 Analysis:

- **Heavily dependent upon feedback from the Executive Board in February**

# 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 the February EB:**

- **Revisit how ISC and DSC are interpreted and charged**
- **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**

# Implications of ISC for the transition to Food Assistance

## Key Questions:

- **What are the implications for WFP's transition to food assistance on programme support and administration expenditures?**
- **Should WFP continue with a single ISC recovery rate for all programmes and activities?**

## Phase 2 Analysis, subject to feedback from the February EB:

- **Details of how the concept is applied in other agencies**
- **More details on how the single rate was adopted in WFP**

# Resource Mobilization Considerations

## Key Questions:

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

## Phase 2 analysis, subject to feedback from the February EB:

- **Assess the effect of the ISC rate on attracting donors**
- **Determine whether flexible ISC rates encourage contributions from non-traditional donors**
- **Make recommendations, recognizing the principle of simplicity, and avoiding significant ISC rate subsidy**

# Next Steps

- **Reactions to the 4 key questions, modified to reflect the view of FAO Finance Committee, to be sought through the ACABQ, and the February Board**
- **Informal Consultations to be held in March, April, and May to share outcomes and to seek additional inputs**
- **Annual Session ISC Review to be submitted for Approval**
- **November Board Session: 2015 ISC rate set through the approval of the 2015-2017 Management Plan**

**Thank you**