

REVIEW OF THE ISC RATE

Informal EB discussion

14 May 2020



Resource Management Department
RM

Objectives and outline of the presentation

Objective of the EB discussion

To seek Member States' views on the application of **flexible Indirect Support Cost (ISC) rates** for certain types of contributions

Outline of the presentation

1. Current principles for determination of ISC
2. WFP's ISC model and some implications
3. Questions for Board on review of the ISC rate
4. Next steps



1.

CURRENT PRINCIPLES FOR DETERMINATION OF ISC



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The Full Cost Recovery principle

Per General Rule XIII.4:

“... all donors shall provide contributions on a **“full cost recovery”** basis, that ensures recovery by WFP of **all of the costs of the activities** financed by the contribution, employing the following cost categories, as defined at General Rule X.2, and calculation criteria:

- 1. Transfer and implementation costs**, based on estimated costs
- 2. Direct Support Costs**, based on country-specific percentages of the transfer and implementation costs; and
- 3. Indirect Support Costs**, based on percentages determined by the Board of transfer and implementation costs, and direct support costs”



Principles and guidance underlying WFP's funding model

Three principles underpin WFP's current funding model:

1. 100 percent voluntarily funding
2. Full cost recovery on contributions
3. Avoidance of cross-subsidization

Guidance on ISC from the EB in 2014-15 **reaffirmed**:

- Simple and efficient administration and management
- Predictability and transparency of funding levels for Programme Support and Administrative (PSA) budget
- An equitable treatment of donors
- Flexibility to adjust to operational levels [e.g.: via the PSA Equalization Account (PSEA)]
- Desirability of consistency with UN system-wide approaches (while recognizing different business models exist within the UN system)



Conclusions of the 2015 ISC review by the EB

- WFP's current **voluntary funding model** is preferable to a core funding model
- A **single-rate ISC model** is simple and transparent and should be maintained
- **Variable ISC rates** linked to programme categories or activity types would probably **not incentivize additional contributions**



2.

WFP's ISC MODEL AND SOME IMPLICATIONS



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Evolution of WFP's recovery rate policy

1995

Adoption of **Full Cost Recovery** model

Different ISC rates based on project category (EMOP, PRRO, DEV, SO)

2000

Application of a **single ISC rate of 7.8 percent** for all project categories

2004

ISC rate **reduced to 7 percent**

Establishment of the **PSA equalization account**

2014-15

ISC review by the Executive Board led to the decision to **maintain a single ISC rate**

2018

Application of **further reduced ISC rate of 6.5 percent**

2019

ISC rate of 6.5 percent maintained; **4 percent ISC rate** for government contributions to their **own programmes**, contributions by **developing countries** or with **economies in transition**



The current ISC rate

- ISC rates are **governed by WFP's General Regulations, General Rules and Financial Regulations** and **approved annually** by the EB in the Management Plan
- The current 6.5 percent flat rate, applicable to nearly all contributions, established by the EB as **easy to implement, equitable, favoring predictability of ISC, and simple to understand**



Exceptions to the current ISC rate

1

4 percent rate (set annually by the EB) to **host governments, developing countries** and countries with **economies in transition**

2

Cash contributions which are **not designated** in any way, designated to the **IRA** or the **Operational Reserve**, or to the **PSA** and related activities are not required to meet full cost recovery (*GR XIII.4 B*)

3

The ED may exceptionally reduce or waive ISC and, where applicable, DSC for contributions as shall be determined by the EB, where the ED determines that such reduction or waiver is in the **best interests of the beneficiaries** of the Programme (*GR XIII.4 D*)

4

The ED can determine the ISC rate for **Service Provision** activities (*FR 4.8*) and **Trust Funds** (*FR 5.2*), as long as the full cost recovery principle is adhered to



Potential issues in WFP's ISC rate application

- As per the principles previously endorsed by the EB, the current ISC policy has **no further flexibility** in its rate application, e.g. the same ISC rate will be applied:
 - Regardless of contribution size
 - Across all transfer modalities (e.g.: in-kind, cash, capacity strengthening)
 - Across all focus areas (crisis response, resilience, root cause)
- The current policy does not permit **negotiation of the ISC rate** on contributions, even when:
 - **Other UN agencies** have agreed a lower rate with a donor, multilateral organization or development bank
 - **Governance Organs of a multilateral organization** or development bank have determined that a different rate should apply to their contributions



3.

QUESTIONS FOR BOARD ON REVIEW OF THE ISC RATE



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Secretariat commitment for a potential review of ISC

As outlined in WFP's Management Plan (2020-22):

“Recognizing a renewed interest in discussing whether to **introduce further flexibility in setting ISC rates** for certain types of contributions, the Secretariat is preparing a separate workstream for the Board's engagement in 2020.

The workstream will start with a framing of the issue through the Board's consideration of a small **number of questions** of principle presented by the Secretariat.”



Stimulus for a potential review of the ISC rate

- **Signals** from **some** donors to apply ISC flexibility
- Current **inflexibility** to negotiate ISC rate implies WFP is sometimes an outlier
- Review funding approaches for **fixed and variable costs** (especially relevant for UN funds and programmes with “core budget”)
- **Harmonization with other UN agencies’** policies on cost classification and cost recovery
- Alignment with **Funding Compact** to improve comparability of cost classifications and definitions (as raised by some partners and donors)



Some risks and challenges of a flexible ISC rate

External drivers

- Unless significant new funding is mobilized, possibility of diminished **resources** through reduced ISC income, while needing to maintain high quality support and emergency surge capacity
- **UN Funds and Programmes** Principals encouraged by their EBs to limit granting exceptions and waivers in ISC rates

Internal drivers

- A more challenging **forecasting process** (e.g.: ISC projections for budgeting in MP)
- New **policies, processes, systems and manpower** to administer the flexible rates
- Differentiated ISC rates could result in incentivizing or disincentivizing contributions to certain programmes or modalities



Key questions for discussion [1/2]

1. Should WFP extend **differentiated rates** based on:
 - The **type of modality or intervention** (e.g. food vs. cash-based transfers)
 - **“Large” contributions**, ostensibly generating economies of scale?
2. Should WFP apply the **UN harmonized ISC rate**, normally at **7 percent**, for contributions relating to joint UN activities such as Multi-Donor Trust Funds, One UN Funds and/or UN Joint Programmes?



Key questions for discussion [2/2]

3. Could the ED exceptionally have flexibility to apply a lower ISC rate (than 6.5 percent) to a donor contribution:
 - To join **other UN organizations** if already exceptionally agreed by others; or
 - If the **difference is demonstrably covered** as direct costs, thus still achieving full cost recovery (as done in other agencies) – subject to annual post factum reporting to the Board?

4. The EB approves the annual ISC rate applicable to contributions from host governments', developing countries or with economies in transition (currently **4 percent**). Could WFP apply a 4 percent rate as **a floor**, so that **higher rate (up to 6.5 percent) can be applied** if the donor would agree?



4.

NEXT STEPS

Next steps based on EB members' conclusion

If no change is required to the current ISC model

- No further work required: Management Plan 2021-23 will broadly repeat previous EB decision on application of ISC

Where Informal Consultation signals need for change

- **Analyses** will be produced to define new or alternative models, determine impact of the change and related risks
- Further **informal consultations** will be arranged to engage with the EB



THANK YOU



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