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FINANCE COMMITTEE

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Annual Report on Support Costs Expenditure and Recoveries

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EXECUTIVE SUMMARY

- This paper reports on the implementation of the legacy FAO policy for setting project servicing cost (PSC) rates for 559 Trust Fund projects opened during the period June 2015 through May 2016. It provides a categorised distribution of the PSC rates applied to these projects in terms of project numbers and lifetime budgets. It is noted that about 81.2% of new projects (by value) approved during the period have been sanctioned at their ceiling rates, and the remaining projects have been charged at rates that fall within the legacy policy.
- During 2016, the Secretariat is applying the new FAO policy on cost recovery to selected projects during formulation in close collaboration with the resource partners involved, aiming for full implementation of the new policy in 2017.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the experience in the implementation of the legacy policy for setting project servicing cost rates during the period June 2015-May 2016.

Draft Advice

- **The Committee took note of the implementation of the legacy policy for setting project servicing cost rates during the period June 2015 – May 2016.**

1. This document reports on the application of the legacy FAO policy for setting project servicing cost (PSC) rates for the period June 2015 to May 2016. The legacy policy is being applied during 2016 while FAO is transitioning with resource partners to the new Cost Recovery Policy¹ which will recover direct support costs (DSC) and indirect support costs (ISC).
2. The categories of extrabudgetary funded projects to which PSC rates apply were defined under the legacy policy as: technical assistance and direct support of Regular Programme (RP) activities, where a standard 13 percent rate applied; emergency assistance, where a ceiling rate of 10 percent applied; and jointly funded activities (zero to 10 percent). The PSC rate may be reduced when the variable indirect support costs on a given project are expected to be lower. The function of appraising variations from standard PSC rates is entrusted to the Office of Strategy, Planning and Resources Management.
3. The statistics provided in this report cover the period from 1 June 2015 through 31 May 2016, during which FAO opened 559 Trust Fund projects with PSC rates. Table 1 provides a categorized distribution of PSC rates applied to these projects in terms of the number of projects and the lifetime budgets. All projects have been charged at PSC rates that fall within the legacy policy.
4. The vast majority of projects – 81.2 percent of cases by volume - are charged at their ceiling rates, as shown in rows 1-4 of Table 1. As requested by the Finance Committee, for projects approved at their ceiling rates the table provides statistics on the type, number and volume of such projects approved at non-standard and standard PSC rates within the legacy policy.
5. The projects tabulated in rows 5-10 of Table 1 – 18.8 percent of cases by volume - are in categories charged below the ceiling rate within the legacy policy.
6. The weight of total budgets approved at their ceiling rates increased from 74.8 percent of total budgets by value in the previous reporting period to 81.2 percent in the current period, mainly due to the decline in other categories, in particular under the projects with high proportion of contracts, supplies and equipment.
7. During 2016, the Secretariat is applying the new FAO policy on cost recovery to selected projects during formulation in close collaboration with the resource partners involved, aiming for full implementation of the new policy in 2017.

¹ FC 161/6

Table 1: Distribution of the categories of PSC rates applied to projects opened June 2015 – May 2016, showing for projects approved at their ceiling rates the type, number and volume of such projects approved at non-standard and standard PSC rates.

PSC Category		Number of Projects	Lifetime Budget (USD)	% of Total Budget
Projects approved at their ceiling rate				
1	Emergency assistance projects approved at their ceiling rate	183	317,434,532	50.6%
	<i>a) Emergency assistance projects approved at their ceiling rate - PSC % charge at 7% (EU, CERF, etc.)</i>	95	107,085,530	17.1%
	<i>b) Emergency assistance projects approved at their ceiling rate - standard PSC % charge</i>	88	210,349,002	33.5%
2	Technical assistance projects approved at their ceiling rate	94	118,990,890	19.0%
	<i>a) Technical assistance projects approved at their ceiling rate - PSC % charge at 7% (EU, CERF, etc.)</i>	33	55,561,270	8.9%
	<i>b) Technical assistance projects approved at their ceiling rate - standard PSC % charge</i>	61	63,429,620	10.1%
3	Projects in direct support of RP activities at their ceiling rate	59	68,284,463	10.9%
	<i>a) Projects in direct support of RP activities at their ceiling rate - PSC % charge at 7% (EU, CERF, etc.)</i>	17	44,654,438	7.1%
	<i>b) Projects in direct support of RP activities at their ceiling rate - standard PSC % charge</i>	42	23,630,025	3.8%
4	Decentralized Cooperation Programme	1	4,977,876	0.8%
Subtotal - projects approved at their ceiling rate		337	509,687,761	81.2%
Projects charged below the ceiling rate within the policy				
5	Global Environment Facility	20	67,795,240	10.8%
6	Technical Support Services	1	142,800	0.0%
7	Projects with high proportion of contracts, supplies and equipment (Manual Section 250 Annex II applies)	9	26,911,478	4.3%
8	Projects in direct support of RP activities approved at lower than ceiling rate (where circumstances in conformity with policy apply)	11	3,040,652	0.5%
9	United Nations Joint Programmes	19	18,717,533	3.0%
10	Telefood – zero rate per Conference Resolution 3/97	162	1,383,612	0.2%
Subtotal - projects charged below the ceiling rate within the policy		222	117,991,314	18.8%
Grand Total		559	627,679,075	100%

