

conference

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS ROME

C
C 91/4-Sup.2
November 1991

Twenty-sixth Session

Rome, 9 - 28 November 1991

SUPPORT COSTS ARRANGEMENTS FOR TRUST FUND PROJECTS

Nature of the Problem

1. The application of the new regime of support cost reimbursement for UNDP projects will have a number of direct and indirect implications for FAO - the extent of which, as stated in Supplement 1 to the Review of Field Programmes 1990-91, will only become fully known when sufficient experience with the new arrangements is gained.

2. While these arrangements will only affect projects financed by UNDP, in the present document the Director-General wishes to draw the attention of the Conference to the support cost situation affecting the Trust Fund programme. The current flat-rate system of reimbursement - uniformly applied to Trust Fund projects regardless of their operational complexity, budget volume and funding source, does not respond to the needs of a programme through which the Organization undertakes a complex variety of development actions. In this sense, a review is necessary, and is in fact overdue if the Organization is to keep the competitive edge it needs to maintain and strengthen the Trust Fund programme - which now accounts for over 45 percent of FAO's total field programme delivery.

3. Closely linked to the above is the manifest unsuitability of the present overheads reimbursement system to keep pace with cost increases arising from the administrative and technical servicing of the Trust Fund programme. This has resulted in a significantly increased Regular Programme subsidy or, in its absence, a relative decline in the quality of services provided - to the detriment of the technical and operational standing of the Organization.

4. The Director-General considers that the revision of the concepts and modalities for UNDP support cost reimbursement offers an opportunity for the review of the arrangements applicable to Trust Fund projects - bearing in mind that, in general, the Governing Bodies have ensured coherence in the regime applied to Trust Fund projects with that followed in respect to projects funded by UNDP. While the nature of the new UNDP arrangements preclude their direct application to Trust Funds, the Director-General nevertheless wishes to request the necessary flexibility to examine new measures and to propose changes to the present regime for Trust Fund projects which, subject to approval by the Governing Bodies, would ensure the continued relevance and effectiveness of FAO's field activities as a whole.

Background

5. In the 1970s FAO's UNDP and Trust Fund programmes were both subject to a standard rate of reimbursement, to cover overhead support services, of 14 percent of the value of delivery. In June 1980, the UNDP Governing Council, in its Decision 80/44, decided to change this standard rate to 13 percent and urged "governing bodies of agencies to apply the support cost reimbursement arrangements ... also to technical cooperation activities financed from all other extra-budgetary resources, including Trust Funds or similar funds".

6. At its Twenty-first Session in November 1981, the FAO Conference reviewed and responded to these developments by deciding to change the figure of 14 percent to 13 percent as the "established" rate for Trust Fund projects, and to retain the application of lower rates or waivers in certain circumstances.¹ Since that time, support cost reimbursement for the great majority of Trust Fund projects has been assessed at the standard flat rate of 13 percent.

7. In its recent decisions on the Support Costs Successor Arrangements the UNDP Governing Council did not include a call for agencies to adopt a similar approach for their Trust Fund programmes. Instead, the Governing Council decided "not to make a general recommendation concerning the application of UNDP support cost reimbursement arrangements to other technical cooperation activities, such as agency Trust Funds" (Decision 90/26) and postponed the consideration of any changes in the method of charging support costs for UNDP's own Trust Funds and other funds under the authority of the Administrator (Decision 91/32 - reproduced as an annex to C 91/4-Sup.1).

The Need for a Revised System of Trust Fund Project Support Costs Reimbursement

8. Since the standard flat-rate system for charging support costs was devised in the 1960s, FAO's Trust Fund programmes have expanded greatly, and undergone an extensive evolution in range of project size, coverage, content and approach. Yet the standard formula for the determination and reimbursement of such costs has not significantly changed. Thus the present approach fails to recognize the existing diversity of Trust Fund operations and budget levels of the different projects; the economies of scale that can be achieved in providing support to a multi-million dollar project cannot be taken advantage of; and the adoption for funding by donors is often rendered difficult by the need to rigidly apply the uniform rate. The Director-General is therefore of the view that the introduction of the new UNDP support costs regime presents a useful opportunity to review separately the methodology whereby such costs are calculated and charged to Trust Fund projects.

9. Such a review is especially timely, since it is evident from the results of FAO's cost measurement system (as described in the Ex-Post Facto Reports on Project Support Costs, presented regularly to the Finance Committee) that the funds received by the Organization for the technical and administrative support of Trust Fund projects have been increasingly insufficient to cover rising real costs. Indeed, the difference between

¹ See C81/REP, paras 277-279.

the reimbursement received for such services, and their actual costs, has widened significantly in recent years - leading to an increased burden on already strained Regular Programme resources.

10. In light of the above, the Director-General believes that any revision of support costs arrangements for Trust Fund projects should, inter alia, reflect the objective, as has been evoked in the Governing Bodies, that in principle these programmes should bear the costs of their operations, so as to avoid undue pressure on the Regular Programme budget. The Conference is invited to again consider this objective at its present session, bearing in mind that exceptions and waivers of the present standard formula are allowed for under certain kinds of operations financed by Trust Funds.

Proposed Approach for Developing a Revised System

11. Given the fact that the new UNDP Support Costs Successor Arrangements do not affect Trust Fund projects, the Director-General proposes that the case for a revision of Trust Fund support costs arrangements should be examined on its own merits, within the framework of the following main points:

- (i) The standard flat-rate system, as presently applied, does not reflect sufficiently the trends in the real costs of FAO's overhead technical and administrative support to Trust Fund projects. To address this difficulty, there is a need to analyse in detail each component of these services - as has been done recently in respect of administration and operational services (AOS) for UNDP-funded projects. (It is understood that, in undertaking such analysis, FAO would avail itself of the services of specialized consultants - as was the case in the UNDP exercise);
- (ii) Based on the above analysis, a reimbursement methodology - including the possibility of options for specific types or groups of projects - should be devised which would better reflect the varied composition of Trust Fund programmes, and present levels as well as future possible changes in the real costs of Trust Fund project support services provided by FAO. Such a methodology should, over time, be capable of reducing progressively, and containing to an acceptable degree the overall Regular Budget subsidy needed to cover the costs of such services;
- (iii) Any revised arrangements should enable Trust Fund donors and recipient governments to have a clearer idea of the various support costs incurred, and the scope and content of the specific services rendered in the case of individual projects or groups of projects;
- (iv) The overall costs apportionment resulting from such a new methodology should be divided in an equitable manner between donors, FAO, and the recipient governments concerned, at the same time strengthening FAO's ability to provide the required high-quality support services on a competitive basis, and;

- (v) The new methodology, while entailing a more specific, detailed and flexible approach to the charging for such support services, should be sufficiently easy to understand and apply.

12. The elaboration of well-defined proposals for revising the present Trust Fund project support costs arrangements will clearly require time for careful assessment and analysis. The Director-General therefore wishes to seek the agreement of the Conference to his initiating the necessary study of this subject immediately, along the lines set out above.

13. It is proposed that the conclusions of the study, and the resulting recommendations, be submitted to the Programme and Finance Committees at their 64th and 73rd Sessions respectively, in May 1992. In order not to lengthen unduly the process of implementation, the Director-General requests that the Conference agree that the revised system approved by the Committees should be implemented on a provisional basis as from 1 June 1992, subject to endorsement (and the introduction of any further adjustments considered necessary) by the 102nd Session of the FAO Council in November 1992. The new arrangements would then come into effect formally as of 1 January 1993.