

October 2012



منظمة الأغذية
والزراعة للأمم
المتحدة

联合国
粮食及
农业组织

Food and
Agriculture
Organization
of the
United Nations

Organisation des
Nations Unies
pour
l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones Unidas
para la
Alimentación y la
Agricultura

FINANCE COMMITTEE

Hundred and Forty-seventh Session

Rome, 5 - 9 November 2012

Annual Report on Support Costs Expenditure and Recoveries

Queries on the substantive content of this document may be addressed to:

Mr Boyd Haight

Director, Office of Strategy, Planning and Resources Management

Tel: +3906 5705 5324

This document is printed in limited numbers to minimize the environmental impact of FAO's processes and contribute to climate neutrality. Delegates and observers are kindly requested to bring their copies to meetings and to avoid asking for additional copies. Most FAO meeting documents are available on the Internet at www.fao.org

EXECUTIVE SUMMARY

- This paper reports on the implementation of the FAO policy on support costs for the period June 2011 through May 2012, during which time FAO opened 799 trust fund projects. The paper provides a categorized distribution of the project servicing costs (PSC) rates applied to these projects in terms of project numbers and lifetime budgets. It is noted that about 89.8 percent 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 currently approved policy.
- The paper also reports on the progress in implementation of the improved cost recovery mechanism, as endorsed by the Finance Committee at its 141st session and approved by Council at its 143rd session.
- In addition, the paper provides an outline of the content of the comprehensive report on all aspects of FAO's support cost policy that will be presented to the Finance Committee in 2013.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the experience in the implementation of the policy on support costs during the period June 2011- May 2012.
- The Committee is invited to take note of the progress in implementation of improved cost recovery mechanism and related measures, as approved by Council at its 143rd session.
- The Committee is invited to comment on the outline of the comprehensive report on FAO's support cost policy.

Draft Advice

- **The Committee took note of the implementation of the policy of support costs during the period June 2011-May 2012.**
- **The Committee noted the progress in implementation of the improved cost recovery mechanism.**
- **The Committee welcomed the outline of the report on FAO's support cost policy to be presented to the Finance Committee at its autumn 2013 session.**

Implementation of the Support Cost Reimbursement Regime

1. The FAO policy for setting project servicing cost (PSC) rates was endorsed by the Council in November 2000¹. The policy is based on the principle that there should be a reasonable alignment of charges to the actual costs of providing administrative and operational support (AOS) to projects, taking due regard of existing arrangements and the need for a simple and transparent approach. Refinements to the application of the policy were made in September 2001², September 2002³, September 2005⁴ and September 2006⁵.

2. The categories of extra-budgetary funded projects to which PSC rates apply are defined as: i) technical assistance and direct support of Regular Programme (RP) activities, where a standard 13 percent rate is in effect; ii) emergency assistance, where a ceiling rate of 10 percent applies; and iii) jointly funded activities (zero to 10 percent). The 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 rates is entrusted to the Office of Strategy, Planning and Resources Management. Within each category, the circumstances that merit a departure of PSC rates from the applicable ceiling rates are identified.

3. The statistics in the table cover the period from 1 June 2011 through 31 May 2012, during which FAO opened 799 trust fund projects. The table provides a categorized distribution of PSC rates applied to these projects in terms of both number of projects and lifetime budgets. It is noted that all projects have been charged at rates which fall within the presently approved policy.

PSC Category		Number of Projects	Lifetime Budget (USD)	% of Total Budget
1	Emergency assistance projects approved at their ceiling rate	235	366,430,935	51.2%
2	Technical assistance projects approved at their ceiling rate	87	180,111,986	25.2%
3	Projects in direct support of RP activities at their ceiling rate	52	96,585,424	13.5%
4	Decentralized Cooperation Programme	2	600,000	0.1%
5	Global Environment Facility	12	9,832,881	1.4%
6	Technical Support Services	5	4,233,665	0.6%
7	Projects with high proportion of contracts, supplies and equipment (Manual Section 250 Annex II applies)	5	16,337,487	2.3%
8	Projects in direct support of RP activities approved at lower than ceiling rate (where circumstances in conformity with policy apply)	10	12,344,770	1.7%
9	United Nations Joint Programmes	30	26,461,208	3.7%
10	Telefood – zero rate per Conference Resolution 3/97	361	3,174,961	0.4%
Grand Total		799	716,113,317	100.0%

¹ CL 119/13 Annex II

² CL 121/4 and FC 97/5

³ CL 123/15 paragraph 33 and FC 100/5

⁴ CL 128/4 paragraphs 20-25 and FC 110/4

⁵ CL 131/7 paragraphs 49-52 and FC 115/14

4. The table demonstrates that the vast majority of projects are charged at their ceiling rates (i.e. rows 1-3, account for 89.8 percent of cases by value) and, therefore, that the flexibility is administered carefully. The projects tabulated in rows 4-10, while resulting in modified rates, do so within the approved policy.

5. The number and value of total budgets approved at their ceiling rates slightly increased (from 88.3 percent of total budgets by value in the previous reporting period to 89.8 percent in the current period), due mainly to the emergency assistance projects and projects in direct support of RP activities.

6. In June 2012, the Global Environment Facility (GEF) Council approved a new Management Fee structure, as follows: for GEF project grants up to and including USD 10 million, GEF Agencies will receive fees at 9.5 percent of the grant amount; for project grants above USD 10 million, GEF Agencies will receive fees at 9.0 percent⁶. FAO has developed an innovative approach to the national execution modality that is specifically tailored for GEF country projects, with a view to ensuring compliance with GEF operational procedures. Therefore, indirect variable costs to the Organization for operating these projects are expected to be relatively minor and the new GEF fee structure is assumed to be sufficient.

Progress of Implementation of Improved Cost Recovery Mechanism

7. The Council at 143rd session approved the mechanism proposed for improved cost recovery⁷. Specifically, it was agreed that costs were to be recovered for IT support services provided to extra-budgetary financed personnel at all locations, and headquarters security services available to extra-budgetary financed staff located at headquarters. The uplift-based methodology of recovering costs was also approved for office space occupancy-related charges (e.g. utilities, garbage collection, etc.), which previously were recovered through a labor intensive working routine.

8. The improved cost recovery mechanism will be implemented in phases. Specifically, in 2012-13 measures are being put in place to recover the cost of IT support, security services provided to project personnel (staff and consultants), as well as office occupancy-related charges at headquarters. Measures to recover the costs of the same services provided to personnel of extra-budgetary projects in decentralized offices will be put in place starting 2014-15.

9. The recovery is implemented through the application of uplift to costs of project personnel. For 2012-13, these project personnel cost uplift rates for headquarters-based extra-budgetary personnel are:

- a) 5 percent uplift for cost of IT support services including the costs of e-mail, intranet access, internet access, help desk, use of corporate systems, software licenses, band-width, hardware replacement management and telephone infrastructure;
- b) 1.5 percent uplift for cost of Security services;
- c) 1.5 percent uplift for cost of office space occupancy (previously recovered by other routines).

10. In line with the latest estimates, the incremental earnings through improved cost recovery uplift measures in 2012-13 (points 9a) and 9b) above) are expected to reach USD 8.1 million.

11. The other approved measure relates to recovering indirect variable costs of services provided in connection with recruiting and managing project personnel where PSC rates are below the ceiling rates. The uplift related to this measure has not yet been implemented, as the Organization needs to put in place an appropriate mechanism to monitor and report the resulting consolidated rate, which must remain within the ceiling rate.

⁶ GEF/C.42/08, para 5.

⁷ CL 143/REP, para 27

Elements for the Comprehensive Report to be presented in 2013

12. The Council at its 143rd session noted the need to provide additional information, in particular on the methodology used to assess the deficit of cost recovery and the reimbursement related to the cost of support services. In this regard, it also observed that a separate comprehensive report should be prepared addressing all aspects of this support cost policy⁸. The Secretariat is currently gathering all relevant information and plans to present the comprehensive report to the Finance Committee at its autumn session in 2013. Below is the draft outline of elements that would constitute the report:

- a) Historic background, providing detailed information on milestones in evolution of the Support Cost Policy;
- b) Methodological basis for calculations of variable indirect costs and determination of PSC rates (Work Measurement Surveys and Cost Measurement Studies);
- c) Time-series of performance in recovering variable indirect costs (actual costs vs. recovered), as reported to Governing Bodies;
- d) Further progress with the implementation of the improved cost recovery mechanism and related measures endorsed by Council at its 143rd session in December 2011;
- e) Prospects for harmonizing support cost regimes stemming from the integration of emergency and development programmes at country level; and
- f) Further measures to improve the reporting of variable indirect costs.

13. The Committee is invited to comment on the outline of the comprehensive report on FAO's support cost policy.

⁸ CL 143/REP, para 27