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FINANCE COMMITTEE

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Report on Support Costs Expenditure and Recoveries

HIGHLIGHTS

1. This paper reports on the implementation of FAO's policy on support costs for the period from June 2006 through May 2007, during which time FAO opened 609 Trust Fund projects. The paper provides a categorised distribution of the project servicing cost (PSC) rates applied to these projects in terms of both project numbers and lifetime budgets. It is noted that nearly 94% of new projects (by value) approved during the period have been sanctioned at their ceiling rates. Moreover, the remaining projects have been charged at rates which fall within the currently approved policy.
2. This paper further informs the Committee of two recent developments that could impact on support cost policy and methodology in the future: the budgetary and financial treatment of project support cost earnings; and, inter-agency consultations on direct and indirect costs charged to extra-budgetary projects.
3. The Committee is invited to note the experience in the implementation of the policy on support costs during the period June 2006 – May 2007.

I. Implementation of the Support Cost Reimbursement Regime

4. The FAO policy for setting project servicing cost (PSC) rates was endorsed by the Council in November 2000¹. The policy is established on the principle that there should be a reasonable alignment of charges to the actual costs of providing administrative and operational support to projects, taking due regard of existing arrangements and the need for a simple and

¹ CL 119/13 Annex II

transparent approach. Refinements to the application of the policy were made in September 2001, September 2002², September 2005³ and September 2006⁴.

5. The categories of extra-budgetary funded projects to which PSC rates apply are defined as: *TECHNICAL ASSISTANCE* and *DIRECT SUPPORT OF REGULAR PROGRAMME (RP) ACTIVITIES*, where a standard 13% rate is in effect; *EMERGENCY ASSISTANCE*, where a ceiling rate of 10% applies; and *JOINTLY FUNDED ACTIVITIES* (zero to 10%). The charge 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 Programme, Budget and Evaluation. Within each category, the circumstances that merit a departure of PSC rates from the applicable ceiling rates are identified.

6. The statistics in the table below cover the period from 1 June 2006 through 31 May 2007, during which time FAO opened 609 Trust Fund projects. The table provides a categorised distribution of the PSC rates applied to these projects in terms of both project numbers and lifetime budgets. It is noted that all projects have been charged at rates which fall within the presently approved policy.

7. The progressive implementation of the increase in the rate for projects in Direct Support of RP Activities from 6% to 13%, approved in November 2006, resulted in a higher level of support cost recoveries. The weighted average of PSC rate applied to new projects in Direct Support to RP Activities during the period from June 2006 to May 2007 was 10.5% and is expected to increase toward 13% in the coming year as projects are approved at the new rate.

Distribution of the categories of PSC rates applied to projects opened June 2006 – May 2007

	PSC Category	Number of Projects	Lifetime Budget (US\$)	% of Total Budget
1	Emergency Assistance approved at their ceiling rate	205	271,477,891	50.2%
2	Technical assistance projects approved at their ceiling rate	103	199,025,059	36.8%
3	Projects in direct support of RP activities at their ceiling rate	54	36,740,734	6.8%
4	Decentralized Cooperation Programme	6	1,805,666	0.3%
5	Global Environmental Facility	1	350,000	0.1%
6	Technical Support Services	13	1,485,000	0.3%
7	Projects with high proportion of contracts, supplies and equipment (where Manual Section 250 Annex II applies for determination of the applicable PSC rate)	8	27,494,150	5.1%
8	Projects in direct support of RP activities approved at lower than ceiling rate ⁵	3	402,450	0.1%
9	Telefood - zero rate per Conference Resolution 3/97	216	1,705,569	0.3%
	Grand Total	609	540,486,519	100%

² CL 112/4 paragraphs 21-23 and FC 100/5

³ CL 128/4 paragraphs 20-25 and FC 110/4

⁴ CL 131/7 paragraphs 49-52 and FC 115/14

⁵ For example, where particular circumstances in conformity with policy apply - e.g. travel of developing country participants

8. The table demonstrates that the vast majority of projects are charged at their ceiling/recommended rates (i.e. rows 1-3 inclusive account for 93.8% of cases by value) and, therefore, that the policy's flexibility is administered carefully. The increase from 87% in the previous reporting period is due a change in the overall mix of projects approved. The projects tabulated in rows 4-9, while resulting in modified rates, do so within the approved policy.

9. Overall, the number of projects went up since last year by nearly 10%, while the average size of projects has increased (excluding Telefood) from slightly less than US\$ 1 million to US\$ 1.4 million per project. Technical assistance projects approved at their ceiling rates and projects with high proportion of contracts increased sharply mainly on account of some very large technical assistance projects.

II. Issues relating to Support Cost Financial Management and Methodology

A. IMPROVING FINANCIAL MANAGEMENT OF SUPPORT COST EARNING

10. In 1997, having examined ways to integrate Support Cost resources and other income into the Regular Programme budget as recommended by the External Auditor, the Finance and Programme Committees and Council endorsed a reclassification of extra-budgetary income. Consequently, Support Cost earnings, which are deemed to be largely at the disposal of the Organization and managed closely with the Regular Budget Appropriation, are planned, managed and accounted for as part of the General Fund.

11. The resulting financial management of Project Support Cost (PSC) is rendered difficult during the biennial implementation cycle. The difficulties could be mitigated by carrying forward AOS reimbursements to provide for services across biennia, as is the case in other UN agencies. The Secretariat intends to further explore opportunities for improving the financial management of support cost earnings in the context of: harmonization of support cost practices in the UN system; any guidance that may emerge from the outcome of the IEE; and a more integrated presentation of Regular Budget and extra-budgetary resources in the PWB.

B. HLCM FINANCE AND BUDGET NETWORK – WORKING GROUP ON SUPPORT COSTS

12. In 2002, the HLCM established a Working Group on Support Costs under its Finance and Budget Network to address issues raised by the JIU⁶ with regards to differences in the project support costs rate policies among UN agencies, and the consequent competition for extra-budgetary resources. In 2005, the Working Group agreed on general definitions and principles to serve as guidelines for coherent project budgeting and support cost recovery throughout the system. The application of these guidelines has provided the basis for some harmonization of practices to date, including within the framework of UNDG.

13. Recently, under the “Delivering as One” pilots at country level, the UNDG has been advocating for harmonized support cost rates in joint programmes and multi-donor trust funds at a level that could prevent specialized agencies from fully recovering their support costs. The Working Group on Support Costs is examining support cost methodologies to facilitate cooperation among UN agencies under “Delivering as One”. Since the outcome of this work may have an impact on FAO support cost policy in the future, the Secretariat will keep the Finance Committee informed of developments.

⁶ See JIU/REP/2002/3 Report on Support Cost Related to Extra-budgetary activities in Organizations of the United Nations System