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## PROJECT SUPPORT COSTS AND IN-KIND CONTRIBUTIONS BY FAO TO IOTC

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### BACKGROUND

1. This document provides the information requested in the report of the last Session of the SCAF (para.52) :

*The SCAF **RECOMMENDED** that the Executive Secretary prepare an information document, in conjunction with FAO, which details what the 4.5% servicing fee covers. In addition, the information document should highlight all other services received from FAO as in-kind support. The Executive Secretary shall ensure that the information document is provided no later than 30 days before the next SCAF meeting.*

### PROJECT SUPPORT COSTS

2. The Project Support Costs (PSC) covers general Administrative and Operational Services (AOS) in support of specific activities or projects, which cannot be discretely identified.
3. In delivering projects funded by extra-budgetary contributions, that is, not funded by the Regular Programme of FAO, as is the case of IOTC, FAO incurs various administrative and operational support costs in order to facilitate project delivery. The policy of the Organization is to fully recover such costs from projects. The definition, examples and means of recovery of direct and indirect support costs are shown in Table 1. While the definitions are in line with harmonized UN terminology, their application varies widely among UN System organizations.
4. These are mostly defined as administrative and operational services which are a necessary and inherent part of any project which the Organization agrees to execute, but which, because of their nature, cannot be readily or directly singled out for charging to the project itself.
5. More specifically, FAO has defined variable indirect support costs as follows:

Administrative services may include such items as:

- a. recruitment, briefing and servicing of project personnel;
- b. servicing of fellowships;
- c. procuring supplies and equipment, formalizing contracts;
- d. preparation of budgets and control of project expenditures;
- e. receipt, custody and disbursement of funds, maintenance of project
- f. accounts, financial reporting, external and internal audits, etc.;
- g. security monitoring.

Operational services may include such items as:

- h. assembling and submitting proposals to donors;
- i. negotiating agreements and plans of operation with project-sponsoring
- j. bodies and recipient governments;
- k. location and recommendation of qualified personnel;
- l. guidance and supervision of the implementation of projects;
- m. preparing, monitoring and revising work plans and budgets;
- n. reporting periodically on projects;
- o. fellowships placement and formulation of study plans;
- p. technical selection of equipment and technical preparation of contracts.

It is noted that all of these costs fall under the definition of indirect project support costs.

*Table 1 Definition of Costs used in the FAO Support Cost Policy*

Cost Accounting Term		Definitions	Examples of Services Provided	Means of Recovery in FAO
Direct Costs		Costs that can be directly traced to a product or output	Project personnel, equipment, premises, travel and any other input necessary to achieve the results and objectives set out in specific activities or projects. project budget	Fully recoverable from extra-budgetary resources. To be directly included in project budget
Indirect Costs	Variable Indirect Costs	Costs that are associated with the production of several outputs, but which are not traceable to individual outputs, and which tend to vary indirectly with the volume produced.	Services provided by administrative and operational staff supporting specific activities or projects, which cannot be discretely identified	Levy PSC as percentage charge against actual expenditures
	Fixed Indirect Costs	Costs that are not easily traceable to the production of a single output and which do not vary with the volume of output.	Costs of general management: senior management; general financial accounting; central HR function; auditing; messenger service; central records, etc	Not to be financed from extra-budgetary resources

6. The scope of the current FAO Support Cost Policy (Annex 1) is to recover all variable indirect costs associated with providing AOS services to projects funded by voluntary contributions, the TCP and the SPFS. Such services are a necessary and inherent part of any project that the Organization agrees to execute.
7. Because of their variable indirect nature, the cost of AOS services cannot be readily or directly singled out for direct charging to the project itself. Therefore, the FAO Support Cost Policy establishes PSC charge rates to recover the variable indirect cost of providing AOS services. The type of variable indirect costs recovered through the PSC rates are listed in paragraph 2 of the Policy.

### **Ceiling PSC rates**

8. The PSC rate is a percentage charge applied to project expenditures. Under the current Policy, the standard ceiling rate for extra-budgetary technical assistance projects is 13 percent. The Organization reviews and reports annually to the Finance Committee on the level of support costs and recoveries and the application of the Policy, and proposes adjustments to the Policy and PSC ceiling rates in order to keep charges in line with AOS costs.
9. In the case of Joint Programmes (JPs) and Multi-donor Trust Funds (MDTF), in accordance with the *UNDG Guidance Note on Establishing, Managing and Closing MultiDonor Trust Funds* (2011), all participating UN organizations are to recover programme support costs of 7 percent, which is considerably lower than the prevailing standard rate of 13 percent rate of most specialized agencies, including FAO.
10. However, the case of IOTC is unique is that the PSC assessed is 4.5 percent, considerably lower than the standard of 13 or 7 percent. Such a preferred rate was granted by FAO at the first meeting of IOTC in 1996.

### **In-kind contributions by FAO**

11. Over the years, FAO has provided contributions to IOTC in different ways, in addition to the support provided under AOS. In particular, the FAO Legal Office attended several meetings and provided legal advice during Session of the Commission, as well as inter-sessionally as requested by the Members or the Secretariat.
12. In addition, FAO provided the services of a Meetings Officer, at no cost to IOTC (other than travel costs) during sessions of the Commission, or for the discussion of arrangements with host countries, including preparation of Memoranda of Understanding as needed.