



C 93/17  
September 1993

# conference

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS - ROME

## Twenty-seventh Session

Rome, 6-25 November 1993

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### TRUST FUNDS - SUPPORT COSTS REIMBURSEMENT

#### I. INTRODUCTION

1. At its Twenty-sixth Session in November 1991, the Conference considered a proposal from the Director-General concerning the need for a revised regime for the reimbursement of support costs in respect of Trust Fund projects.<sup>1</sup> The need for revised arrangements stems as much from factors internal to FAO, such as the inadequacy of the present level of reimbursement, as from external factors, such as the response called for to new developments in operational activities, notably the increasing importance of national execution and the emphasis on programme-oriented approaches.

2. *"The Conference welcomed the intention to analyse such costs as both necessary and timely."*<sup>2</sup>

3. *"Many Member Nations expressed the view that the proposed study and recommendations concerning FAO's Trust Fund projects should take account of a similar analysis being prepared for discussion at the Thirty-ninth Session of the UNDP Governing Council in May 1992. To the extent possible, a uniform approach to the application of new support costs arrangements to FAO's Trust Fund programmes was advocated. The Conference concluded that recommendations resulting from the analysis of this matter should be submitted to the FAO Council at its Hundred and Second Session through the Programme and Finance Committees."*<sup>3</sup>

<sup>1</sup> C 91/4 - Sup. 2.

<sup>2</sup> C 91/REP, para. 227.

<sup>3</sup> C 91/REP, para. 228.

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4. At its Hundred and Second Session, in November 1992, the Council reviewed a report by the Director-General,<sup>4</sup> together with the comments of the Programme and Finance Committees thereon. The report included the results of a study, submitted by an external consultant, on the costs incurred by the Organization in support of Trust Fund projects and a proposed methodology for obtaining reimbursement.

5. *"The Council expressed appreciation for the prompt, thorough and transparent manner in which the study had been conducted and presented. In particular, it agreed with the Director-General's approach and in general with his objectives for the new arrangements. It felt that the study drew the attention of Member Nations to the key issues involved and generally welcomed the proposals of the consultant as a basis upon which new support cost arrangements might be developed. In the light of its debate, the Council invited the Director-General to submit his proposals for the implementation of a new support cost regime for Trust Funds, through the Programme and Finance Committees at their May 1993 session, to the Hundred and Third Session of the Council."*<sup>5</sup>

6. At its Hundred and Third Session, the Council reviewed the Director-General's proposals,<sup>6</sup> together with the comments of the Programme and Finance Committees thereon. *"The Council concluded by indicating its general support for the Director-General's proposals which would contribute to the revitalization and qualitative enhancement of the Organization's field programmes, while balancing the financial contributions of the respective sources of funds. It requested the Director-General to review and revise his proposals in the light of the views expressed by the Council and to submit his revised proposals to the Twenty-seventh Session of the Conference in November 1993"*<sup>7</sup>

7. The Director-General accordingly submits to the Conference his proposals, revised in the light of the views expressed by the Council. In order to facilitate their consideration by the Conference, the proposals are preceded by explanations relating to the background, the issues, the current regime and the approach to new arrangements, as agreed by the Council.

## II. BACKGROUND

8. In the 1970s FAO's UNDP and Trust Fund programmes were both subject to a standard rate of reimbursement, to cover 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"*.

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<sup>4</sup> CL 102/18 and CL 102/18 - Sup. 1.

<sup>5</sup> CL 102/REP, para. 196.

<sup>6</sup> CL 103/6 and CL 103/6-Corr. 1.

<sup>7</sup> CL 103/REP, para. 193.

9. 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.<sup>8</sup> 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.

### III. ISSUES

10. A number of important issues merit recalling:

- **FAO's role in field operations**

11. *"To furnish such technical assistance as governments may request"* is among the constitutional functions of the Organization.

12. More recently, among the conclusions of the Review of Certain Aspects of FAO's Goals and Operations, *"the Conference recognized the catalytic importance of FAO's field operations to Member Nations, recipients and donors alike. In partnership with member countries, the Field Programme had given complete expression to FAO's aims and objectives and made its presence and impact felt in developing member countries."*<sup>9</sup>

- **Extra-budgetary funding of the Field Programme**

13. Two basic sources of funding have developed over the last four decades: UNDP and Trust Funds. While the share of UNDP in the total Field Programme has evolved, with it representing almost 90 percent of the total delivery in 1970, to representing 38 percent in 1992, it is still the single largest source of extra-budgetary funds for FAO's Field Programme.

14. The share of Trust Funds in the total Field Programme gives the obverse of the picture. However, it has to be recognized that Trust Funds do not represent a single category. They have to be distinguished between unilateral Trust Funds (through which Member Governments contribute funds for technical cooperation activities in their own countries); the FAO/Government Cooperative Programme (through which governments contribute funds for technical cooperation activities in countries they wish to assist); and Trust Funds for special purposes (depending on an individual programme such as OSRO (Office for Special Relief Operations) or sources of funding such as FFHC (Freedom from Hunger Campaign)).

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<sup>8</sup> C 81/REP, paras 277-279.

<sup>9</sup> C 89/REP, para. 218.

● **Relationship between the Regular and Field Programmes**

15. The Conference has endorsed the conclusion of the FAO Review *"that the Regular and Field Programmes were intertwined both in structure and functions. Through its technical support, the Regular Programme was making its technical and analytical work available to field projects and in turn was receiving data and feedback from the field to strengthen the technical contents of its own activities and to update its information bases"*.<sup>10</sup>

● **Regular Programme Subsidy**

16. The recognition of the above relationship has implied and resulted in the Regular Programme providing a subsidy to the Field Programmes. A distinction needs to be made here between the UNDP-funded Field Programme and the Trust Funds with regard to the principle and the level of the Regular Programme subsidy. In the case of the UNDP-funded Field Programme, Member Governments have accepted that a subsidy from the Regular Programme is required as the contribution of the Organization to the "partnership" and that this is taken into account in determining the level of reimbursement from UNDP.

17. However, with regard to Trust Funds, Member Nations have expressed differing views. As stated at the Twenty-sixth Session of the Conference in 1991, *"several Member Nations stressed that the costs of such support services should in principle be borne fully by the Trust Fund projects and programmes concerned. Other Member Nations expressed the view that some degree of cost-sharing was acceptable, as in the case of UNDP-funded programmes, in view of the benefits to Regular Programme activities of such projects and programmes."*<sup>11</sup>

**IV. CURRENT REGIME FOR TRUST FUND SUPPORT COST REIMBURSEMENT**

18. The policies on the technical/managerial and administrative project servicing costs for technical assistance under funds-in-trust arrangements are included in Appendix A of Manual Section 250 of the FAO Manual. The Manual provides that a project servicing cost rate of 13 percent of total direct costs is to be applied to all technical cooperation administered by FAO with the following exceptions:

- a rate of 12 percent is used in connection with the Associate Professional Officers Scheme;
- a rate of 7 percent is used in connection with supplies and equipment procurement costs where the procurement component represents 40 percent or more of the total project budget. The remaining components are charged at the 13 percent rate;

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<sup>10</sup> C 89/REP, para. 219.

<sup>11</sup> C 91/REP, para. 227.

- a rate of 7 percent of the total project costs is used where the supplies and procurement component is 70 percent or more of the total project budget;
- a rate of 7 percent is applied to any item in the contractual services component of a project which consists of funds transferred directly to a recipient government or other agency without FAO technical involvement. The balance of the project is assessed in accordance with the regular policy;
- a waiver of the support cost reimbursement for projects of less than US\$500; and
- a provision which authorizes the Office of Programme, Budget and Evaluation to grant waivers of the support cost reimbursement in exceptional cases.

19. Waivers have been granted in certain cases to Trust Funded programmes such as in emergencies (e.g. UNEO, SECNA, ECLO and OSRO) and to contributions under Trust Funds which directly support Regular Programme activities. All waivers are reported each year to the September session of the Finance Committee.

● **Problems related to current arrangements**

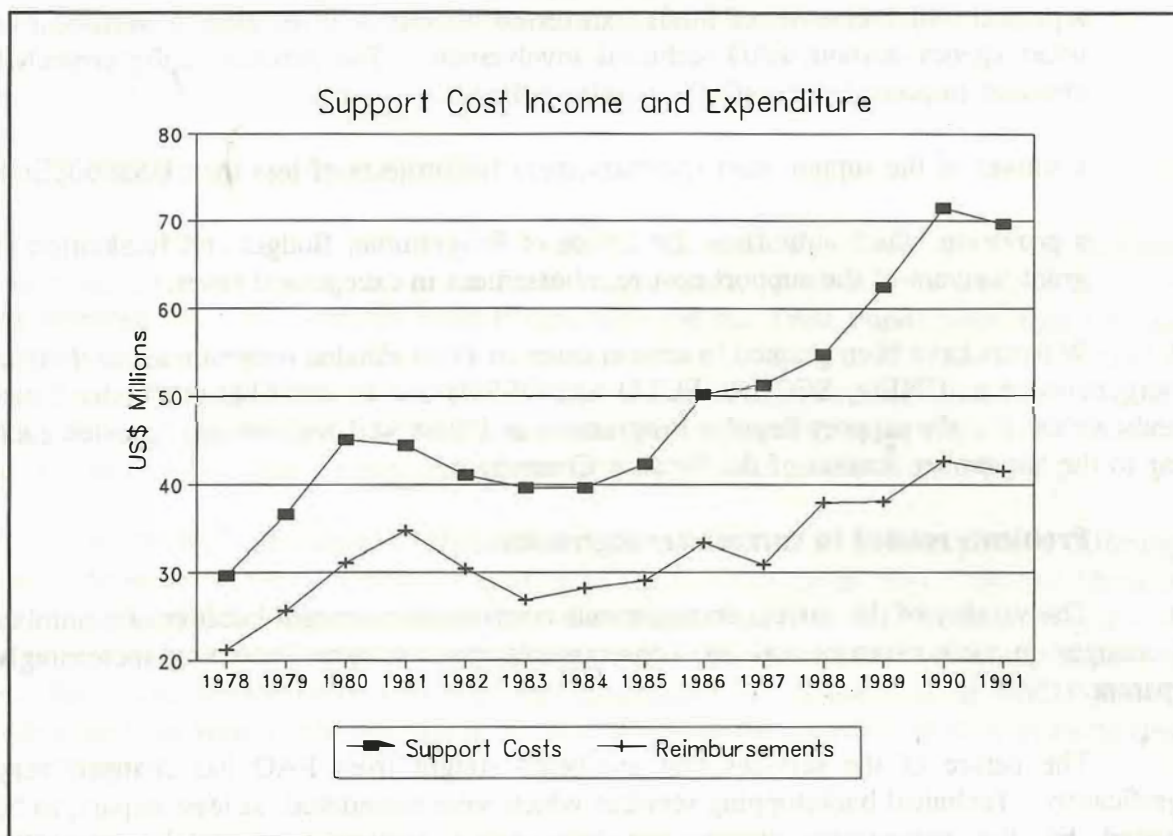
20. The validity of the current arrangements needs to be examined because of a number of changes in circumstances and the consequences that are now becoming increasingly apparent.

21. The nature of the services that are being sought from FAO has changed very significantly. Technical backstopping services which were considered, at least in part, to be covered by the percentage charge, are now being requested separately from the implementation services. In some cases, FAO is asked to deliver only some of the inputs (e.g. experts but not procurement) and in others, only a part of the service (e.g. fellowship placement advice but not fellowship servicing). The nature of the inputs have also changed. As national capacities expand, the call upon the Organization is for the provision of increasingly sophisticated or complex services. In addition, and in line with the same patterns, there is a strong trend away from the traditional Chief Technical Adviser (CTA) with a contract spanning a number of years, to many more contracts of short duration covering specific areas of expertise.

22. The extent of the Regular Programme subsidy is growing each year, in part because the changes in the nature of the inputs sought, as described above, result in a higher cost to the Organization. For example, the recruitment cost associated with many short-term contracts is clearly very much higher than the cost of recruiting a single CTA, even where the delivery figure to which the percentage is applied may be the same. Similarly, the increasing use of national personnel results in a reduced delivery base against which the percentage support cost is to be applied - despite the fact that the cost of support may be no less.

23. The extent of the subsidy has also been growing because of the relative inflation rates in the host country, where most of the support costs are incurred, versus the average international inflation rate reflected in project deliveries.

24. The net effect of these two elements can be seen from the trend in the cost and reimbursements of support costs as measured under the Cost Measurement System and reported to the Finance Committee each year.



25. The pressure resulting from increasing costs and the structure of the current arrangements makes it increasingly difficult to assure the required quality of technical support. This fact was recognized by the Group of Experts on FAO's Field Operations which stated that one of the difficulties in providing good technical support is that *"insufficient support costs are provided by UNDP and Trust Fund donors"*.<sup>12</sup>

26. By tacitly assuming that adequate technical support services will be covered by the support cost charge, there has been a tendency, on all parts, not to plan for these services in an adequate manner. This, when combined with the lack of resources, would appear to have resulted in the underprovision of these essential services. This phenomenon has been particularly evident in the case of the project preparation phase, where the lack of funding for project formulation and appraisal has adversely affected projects in their critical design stage. For this reason, various donors (Italy, Netherlands, Belgium, Japan) have in previous years already agreed to establish project preparation and review facilities, with varying amounts of financial resources, to partly cover the costs of project identification, formulation and review. However, extended technical backstopping from Headquarters to the above activities is still not covered.

<sup>12</sup>

27. Recipient governments, donors and FAO have expressed a continuing interest in enhancing the aspects of transparency, accountability and control which the current arrangements do not facilitate. The 13 percent charge gives the illusion of being an undefined amount set aside for unspecified purposes and is thus a cause of questioning by governments.

## V. APPROACH TO NEW ARRANGEMENTS

28. The approach recommended by the Director-General and agreed by the Council with respect to new arrangements, is to:

- (a) strengthen the quality of the Trust Fund-financed Field Programme by ensuring funding for staffing resources required, especially in the technical areas, to secure the quality and effectiveness of the activities;
- (b) improve accountability of services provided, and increase transparency both in the computation of rates and charges and the reporting on financial operations;
- (c) limit the contribution of the Regular Programme so as to enable the Organization to concentrate additional Regular Programme resources on the programmes and priorities set by the Conference; and
- (d) provide new tools which can be used in the management of the Organization's Field Programme and basic administrative operations, to keep under constant review the cost structure of support services with a view to streamlining them and achieving maximum cost-efficiency. The process of reviewing the rates each biennium will ensure that the internal review process is maintained on a continuous basis.

## VI. PROPOSED ARRANGEMENTS

29. The proposed arrangements are based upon the principle that all incremental direct costs incurred by the Organization should be financed from charges to projects, and that all indirect central support services should continue to be financed from the Regular Programme budget. These central support services, the costs of which would not be charged to Trust Fund projects, comprise:

- the central financial and personnel management systems (FINSYS and PERSYS);
- maintenance of Headquarters and Regional/FAOR office buildings and communications; and
- the costs of the offices of the heads of technical departments.

30. The proposed arrangements cover Technical Support Services and Administrative and Operational Support Services. Each of these is amplified below.

- **Technical Support Services**

31. One of the implications of the insufficient rate of reimbursement is that technical support services provided to projects are largely financed from FAO's Regular Programme budget. Although the Programme of Work and Budget includes funds under sub-programmes for Field Programme support, the results of the surveys of work effort conducted as part of the UNDP-sponsored cost measurement study indicated that the actual level of services delivered and funded from the Regular Programme exceeds the amount budgeted and that the demand for project technical support services significantly exceeded the amounts appropriated.

32. The Director-General considers the provision of adequate technical support both in quality and quantity to be of primary importance for the Field Programme of the Organization and therefore proposes to adopt a new system for charging technical support services to projects as follows:

- Direct Charging of Technical Support Services to Trust Fund Project Budgets

33. In the proposals, technical staff time spent in the field in support of specific projects, along with time for preparation, debriefing and reporting at Headquarters, would be charged directly to project budgets. The provision for technical support in project budgets would be based upon an assessment by the Organization of the specific tasks needed to ensure that each project attains its objectives. While the amounts to be included in the budget would be determined in consultation between the donor, the recipient government and FAO, the Organization's aim would be to ensure that technical backstopping services are adequately provided for in the project budgets.

34. Charges would be based upon a cost per month calculated using an average of the salaries of all FAO Headquarters, regional and country office staff providing such services. Billing would be made after the technical support services have been delivered and would be based upon amounts set in project budgets. Parameters would be established for each type of technical support task in order to simplify the budgeting process. Travel costs would continue to be charged directly to project budgets.

35. Project budgets would include provisions, in work months, for each of the services required including formulation/design, appraisal, evaluation and backstopping/monitoring services. These provisions would only cover those technical support services which are identifiable events leading to specific outputs. They would include tasks such as an evaluation mission and its report, a desk review by an HQ Technical Officer providing substantive comments on a project progress report, or a technical backstopping mission in support of a mid-term review. No provision would be made for non-specific backstopping or monitoring. Furthermore, project identification will continue to be financed from the Regular Programme. The arrangement would be flexible enough to allow for simple modifications where priorities for specific services change.

36. By including the months of technical support services required in each project budget, division managers will have a mechanism for determining what staffing resources are required in the various disciplines for which they are responsible some time in advance, since



most project budgets cover multi-year periods. This will also be an essential tool for allocating resources which can be integrated into the budget process.

37. As noted by the Governing Bodies of the Organization, the methodology proposed deals not only with the level of support cost reimbursement, but aims at enhancing the quality of Trust Fund operations. These arrangements will be conducive to a more specific and detailed formulation of project documents thus also facilitating project appraisal.

38. The reimbursement rate would include all incremental direct costs incurred by the agency, including professional salaries, general service staff support, and incidental office expenses. The costs of all fixed indirect and certain other central support services incurred by the Organization would continue to be financed from the Regular Programme (see Appendix A for illustrative rates).

○ Administrative and Operational Support Services

39. The proposed new arrangements provide for determining the amount of administrative and operational support costs to be charged to projects, using a combination of fixed lump sum amounts and percentage rates as follows:

- (a) The costs of contracting, including letters of agreement, and all procurement services would be budgeted in projects using a single component percentage rate;
- (b) the costs of local General Service personnel and national consultants and experts would also be budgeted in projects using a single component percentage rate;
- (c) the costs of international personnel services would be budgeted in projects based upon two lump sum amounts. A one-time fee would be assessed for each consultant or expert covering the costs of initial recruitment, briefing, debriefing, and travel arrangements (excluding repeated assignments on the same project). In addition, an administrative servicing amount would be imposed for each month an international consultant or expert serves in a project to cover the costs of payroll, social security, medical and related services. Separate rates would be established for the Associate Professional Officer Scheme (as described in Appendix B);
- (d) the costs of fellowship services would be budgeted in projects based upon two lump sum amounts. A one-time fee would be assessed for each fellow covering the costs of placement, final reports review and travel arrangements. Also, an amount would be budgeted for each month a fellow is in training, covering administrative support services;
- (e) the costs of study tours would be budgeted in projects also based upon two lump sum amounts. A fee per tour would be budgeted for the costs of designing and arranging the tour. In addition, a separate amount for each tour participant would be assessed to cover travel arrangements and other

administrative support services which vary according to the number of participants;

- (f) the costs of group and in-service training would be budgeted in projects using a single component percentage rate;
- (g) the costs of other direct incremental services provided to Trust Fund projects by PBE, AFF and DD would be budgeted in projects using a fixed percentage rate of total project delivery, excluding technical support services.

40. A major feature of the proposed arrangements is that it provides donors with a clear indication of the costs of providing each administrative and operational support service. These costs can be compared to those being charged by other agencies providing similar services.

41. It will, therefore, be in the very nature of the arrangements that FAO concentrate efforts on ensuring the quality and timeliness of the administrative and operational support services it delivers. Unless FAO can satisfy donors and recipient governments that it will provide the best possible arrangements for delivery of project inputs, donors will undoubtedly make use of other arrangements.

42. In addition, it will be possible to enhance cost control so that FAO can offer AOS services to Trust Fund projects on a competitive basis. Many of the proposed rates are comparable to those charged by other major institutions involved in providing similar services, while others are not. Where costs are not competitive, the Organization will be compelled to determine the reasons and address them as quickly as possible. Thus, in response to some concerns, it is intended to review the present cost of recruitment, with a view to reducing costs and expediting the process.

43. Additional analyses will be conducted in connection with other administrative and operational services to identify measures which will reduce costs and improve service delivery. Comparative studies will be made with information provided by other agencies within the United Nations system, NGOs, and the private sector, to bring the charges for services as close as possible to international norms and still ensure that services are delivered to the satisfaction of donors and recipient governments.

#### ● Calculation of Support Cost Budget Rates

44. The proposed methodology would involve:

- (a) updating the rates so that they are based upon budgeted costs for the biennium in which they are to be applied to project budgets;
- (b) computing percentage rates by dividing the direct incremental budgeted costs for the biennium for each service component by the actual field project delivery for that component for the previous biennium, adjusted to reflect changes such as the elimination of a programme;

- (c) computing lump sum charges by dividing the direct incremental budgeted costs for the biennium for each service component by the actual number of units of service provided in the previous biennium, adjusted to reflect changes such as the elimination of a programme;
- (d) computing monthly technical support service rates by dividing the direct incremental costs of all technical officers providing technical support to field programmes by the total number of budgeted months of services for such technical officers;
- (e) reviewing the calculations at the end of each biennium to determine whether actual costs varied significantly from the rates and charges, which are based upon budgeted costs and delivery in the preceding biennium. Once this review is completed, adjustments would be made to future rates as applied to new projects to ensure that donors are not overcharged and that the Organization does not under-recover.

45. These calculations would be conducted simultaneously with the computation done under UNDP/CCAQ sponsorship for the UNDP Support Cost Successor Arrangements to reduce costs and ensure comparability.

46. Following the above approach, rates have been computed on the basis of the 1992-93 biennium costs and 1990-91 Trust Fund delivery. These rates are shown, for illustrative purposes, in the table attached as Appendix A which is provided for the information of the Conference.

47. Rates could be subject to reduction in the following circumstances:

- where a donor already directly reimburses certain expenses which are also included in the calculation of the above rates; or
- where specific cost reduction exercises have been undertaken and implemented since the budget was developed but the benefit of which is therefore not reflected in the rates.

Such reductions would only be made where the impact on the rate can be clearly identified and calculated. Furthermore, all such reductions in rates would be reported to the Finance Committee in conjunction with the report of exceptions or waivers referred to in paragraph 106 below.

48. If the methodology proposed by the Director-General is accepted by the Conference, the rates for 1994-95 would be adjusted based upon the 1994-95 biennium costs and the 1992-93 Trust Fund delivery, for use commencing 1 January 1994.

49. Exceptions proposed to the new arrangements are described and justified in Appendix B.

## VII. RESPONSE TO ISSUES RAISED

50. During the Council debate, while widespread support was expressed for the costing methodology and its utility in improving cost effectiveness, several donors expressed concern on a number of issues. Each issue has been examined in some detail and, where possible, the proposed arrangements are revised so as to respond to the specific concern. The following categories of concerns are addressed below:

- the ability of the Organization to implement the new procedures, with particular reference to their possible impact on FINSYS;
- the impact which the implementation of the proposal might have on the ability of donor governments to monitor and appraise projects;
- the rigidity implied by the detailed project budget structure;
- the general principle of charge-out rates based upon actual costs and the maintenance of cost efficiency;
- the appropriateness of the proposed arrangements for small projects;
- the development of concessional rates for:
  - Unilateral Trust Funds (UTF), in particular those of Least-Developed Countries (LDCs); and
  - Associate Professional Officer Scheme (APO);
- the new arrangements in the context of policies for national execution;
- the possible effects of the new arrangements on the Organization's competitiveness within and outside the UN system and on the volume and quality of the Field Programme as a whole; and
- the need for and extent of harmonization of support cost arrangements throughout the UN system.

51. The first two issues are best responded to by addressing two key aspects of the process:

- the identification of costs, the resulting rates and their application to project budgets; and
- the method of charging donors with the amounts determined under the new arrangements.

- **Cost identification and Project Budgeting**

52. The identification of costs and the development of the resulting rates are tasks that have already been achieved. In addition to the preliminary rates established on the basis of the sample Work Measurement Study carried out in 1991, the Organization has recently completed a second survey and is in the process of identifying the consequent costs and calculating the relevant rates. The Work Measurement Study procedure is needed to satisfy both the UNDP Support Cost Successor Arrangements and the increased demands for information on the actual costs of the services provided by the Organization both in support of Regular Programme and field activities. It should not be seen as an incremental effort as it replaces the time reporting system which had previously been in place, and had been found to understate the full cost.

53. As part of the calculation of the initial project budget, the proposed lump sum charges and percentage rates would be computed for each administrative and operational and technical service. A new computerized project budget module is being developed to simplify and fully automate this process. The system would be made available to technical officers, FAO Representations and to donors for their use in checking and formulating budgets for FAO administered projects.

54. Staff, working with donor and recipient governments, would continue to develop budgets as in the past. With a strengthening of project formulation and the availability of the computerized budget module, more detailed and better designed budgets would be available. Once the budget is formulated, the project budget module would automatically compute the support cost administrative and operational charges. The system, using built-in guidelines which would take account of project complexity, would also compute recommended levels of technical support services (TSS) for discussion with donor and recipient government representatives.

55. The impact of the new arrangements for project budgeting (costing) on FAO and donor staff will be minimal due to the automation of the system and the strengthening of FAO's project formulation capacity.

56. Under this approach, the project formulation and preparation process includes a proper assessment of the support services required and their cost. This maintains one of the important advantages of the new arrangements which is to facilitate the consideration of project proposals in full knowledge of their total direct cost.

- **Calculating Actual Charges and Billing Donors**

57. In the area of charging of and accounting for support costs to projects, however, it is recognized that the internal workload for the Organization will be increased by new arrangements due to the fact that FAO's accounting system (FINSYS) has not yet been modified to enable the automated calculation and billing of charges. Though the Secretariat believes that implementation would be possible, such an arrangement would impact upon the workload of FAO staff, particularly in the Administration and Finance Department.

58. Similarly, it is apparent from the debate in the Council and from discussions with donors, that donor accounting systems and project monitoring systems might be affected by the new arrangements. In particular, donors are concerned about the need to monitor actual charges and to ensure that they are correct according to the new arrangements. This would require that the FAO system for the calculation of actual charges be mirrored in each donor's project accounting system.

59. In order to alleviate these concerns the following arrangements are proposed for the billing of support costs:

- The amount of administrative and operational support (AOS) costs included in each project's budget would be computed in accordance with the new arrangement for lump sum and differential percentage rates as proposed.
- The total amount computed for AOS costs would then be established for the life of the project. Since the AOS rates in the new arrangements are computed for a biennium, a factor would be added to compensate for inflation for each year beyond the end of the biennium for which the rates have been computed. The existing factor of 4 percent per annum as currently applied to project inputs would be used for this purpose.
- A percentage rate for the project would be computed by dividing the total AOS charge (including the provision for inflation) for the life of the project by the total value of the project budget excluding AOS and TSS charges.
- The billing system would consist of applying the percentage determined above to monthly project delivery; that is, exactly as is the case with the existing procedure excepting that a specific AOS rate would be determined for and applied to each project.
- The total AOS support cost percentage would be adjusted from the original estimate only if the total project budget were increased or decreased. In such a case the budget would be adjusted to reflect the revised total cost of inputs and services provided and the percentage would be modified to reflect the change for the remainder of the life of the project.

60. This revision to the original proposal has the advantage of requiring little or no change in donors' project accounting systems and of being easily implemented within the existing capacity of FINSYS. It manages to maintain the key elements of the new arrangements as regards the recognition of the cost of support on a project-by-project basis, while simplifying the procedures for charging support costs to projects and minimizing the monitoring and accounting workload for donors.

61. Once the project budget has been determined, the percentage of support costs would be fixed and modified only at such time as the budget is increased or decreased.

62. A similar procedure is currently used by the UNDP Office for Project Services (OPS) in the development of support cost charges under Management Services Agreements

(MSA) for Bilateral and other Trust Fund projects. Many of the donors which support FAO-funded projects are, therefore, familiar with and currently operate this type of arrangement.

63. These charging arrangements would be re-examined in the review, the results of which would be submitted to the Conference in 1995.

64. In the case of technical services, the proposed arrangements treat technical support services provided by FAO staff in the same manner as time provided by international consultants. A service would be agreed upon within the budget using the monthly TSS rate (\$14 300 for 1992-93) and the budgeted amount charged after the service has been provided. Discussions with donors did not reveal any specific concerns and the procedure for the charging of TSS services is reconfirmed.

- **Flexibility in Project Budget Presentation**

65. Some concern was expressed that the more detailed project budgets, which result from the application of the new procedures, would impose an undesirable level of rigidity and even place unnecessary burdens on budget revisions. It is emphasized that the more detailed project budgets are seen as a discipline to improve the quality of the project formulation process and that there is no obligation for such details to be reflected in project documents. The structure and presentation of the project budget remains a matter to be agreed between the Organization, the donor and the recipient country.

66. Similarly, the form of presentation of AOS in project documents is a matter for each donor to determine in consultation with the Organization. Several possibilities exist from a detailed "below the line" exposition to the absorption of all support cost budgets in the direct project lines to which they refer. The technical constraints of existing systems will be identified and the available options discussed with donors to find mutually acceptable solutions in each case.

- **Charge-out Rates Based on Cost and Cost Efficiency**

67. Some member countries expressed concern that the rates to be charged are based upon cost. In particular, it was felt that this approach presumes that the Organization was operating efficiently at the time that the cost study was undertaken. The same member countries wanted to see greater incentives for the efficient operation of Trust Funds built into the new regime.

68. No organization could surely claim to be operating, at any one moment, at optimal efficiency. It is doubtful that perfection in this regard can ever be claimed. In particular, as was reported to the Council, the initial cost study, and the rates which were derived from the first study, highlighted that the percentage for procurement was higher than that being recorded in other institutions both within the UN system and external to it. Immediate action was taken to reduce these costs through the streamlining of procedures and the elimination of procurement units within the operating divisions.

69. This example demonstrates the essence of the new approach in that costs are more transparent and are disclosed, thus enabling comparison of the cost of FAO's services with

those provided by other institutions. It is this same mechanism which provides the "incentives" as it is clear that FAO's services will not be used where the cost of those services exceeds alternative sources providing services of the same quality. On the other hand, where FAO has a comparative advantage in terms of the nature or quality of the services provided at a given cost, FAO will presumably be accepted as the supplier of those services. Given the imperative of FAO's involvement in the field in order to sustain its overall capacity, Member Nations can be assured that the Organization will be positioning itself both in terms of technical capacity and cost in order to secure a substantial field programme in its areas of competence and comparative advantage.

- **Impact on Small Projects**

70. Some concern has been expressed that the new arrangements have an inordinately large impact upon small projects and that, as such, may well make these types of intervention uneconomical.

71. Certainly where such small projects involve short-term experts or consultants, the level of support costs as a percentage of the cost of the inputs tends to be high, often in the range of 20 percent to 30 percent. This, however, reflects the real cost which cannot and should not be disregarded. If these types of intervention are as valuable as they are claimed to be then they will be worth the cost. If not, then they will no longer be funded.

72. It is important that the Organization recognizes and discloses the full cost of each project as it is only by that means that the parties involved can make an informed decision about the cost benefit of each project. Furthermore, if it turns out that the only reason that these projects are currently supported is because of their artificially low "price" (i.e. in effect, because of the extent of the Regular Programme contribution), then the new arrangements will have demonstrated their utility.

- **Special Rates**

73. At its Hundred and Third Session, the Council agreed that special consideration needed to be given to unilateral Trust Funds from developing countries, particularly from the least-developed countries, and to the Associate Professional Officer programme, and that specific arrangements were warranted for these two categories of Trust Funds. In this context, it asked that criteria be developed for the application of such arrangements.<sup>13</sup>

- **Unilateral Trust Funds (UTF)**

74. The case for Unilateral Trust Funds lies in the nature of their funding where a developing country is investing its own resources, whether under internal sources or through loans from the multilateral financing institutions, in its own development. Where such countries are amongst the poorest nations, there is a case, given FAO's particular mandate to work towards the elimination of hunger, for a greater degree of cost sharing. This raises

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<sup>13</sup> CL 103/REP, para. 192.



the question of the definition of countries to which the improved cost-sharing arrangements should apply and the nature and extent of concessional rates.

75. The argument can, in some senses, be applied to any UTF arrangement. However, as these arrangements can be made with many different countries, some of which are relatively wealthy, the Director-General proposes to limit the preferential treatment to those unilateral Trust Funds established under the special arrangements that apply to projects funded directly through loans and credits from the multilateral financing institutions (i.e. World Bank and the Regional Development Banks).

76. The extent of additional cost sharing to be borne by the Organization is essentially a policy decision which can be made on pragmatic grounds. If the concession is seen as a percentage deduction (i.e. a type of discount) on support costs, then the higher the percentage, the better it is for the country proposing the UTF. The factors working against a high percentage or even a 100 percent discount are the cost to the Regular Programme and the possible system-wide implications for this precedent.

77. The impact on the Regular Programme has been estimated by identifying the current extent of UTF programme, estimating what the support cost will be under the new arrangements and then applying the percentage discount. This results in the following scale of Regular Programme biennial contributions to these projects:

	<u>US\$ million</u>
25 percent discount on full support cost	1.0
50 percent discount on full support cost	2.0
100 percent discount on full support cost	4.0

78. The possible system-wide implications concern those agencies which have a field programme entirely or largely centred on Unilateral Trust Fund-based projects. Although for FAO the impact of the discount is relatively minor in terms of the overall budget, it would be much more significant for other agencies where a precedent established by FAO could damage the viability of their programmes.

79. Taking into account these factors, the Director-General proposes to consult other agencies through the ACC subsidiary machinery with a view to applying a discount of 25 percent. Any initial reaction from the agencies concerned will be reported to the Conference during the discussion of this item.

○ Associate Professional Officer Scheme (APO)

80. Given the special nature of these schemes and, in particular, the fact that these projects not only provide a personal development opportunity for the APO but also specific and substantial benefits to the Organization through the provision of educated and skilled staff, the Council requested that special consideration be given to the rates of support cost charged to these schemes.

81. The Director-General has reconsidered this issue and draws the attention of the Conference to the fact that the new arrangements already provide a considerable discount on

the full rates being applied to other types of projects. Appendix B describes the arrangements for Trust Funds not subject to the standard support cost rates. Paragraphs 8 to 13 of this appendix propose a reduced charge for recruitment to better reflect actual costs and the full waiver of the 2.3 percent charge which was designed to cover the incremental indirect costs.

82. The Director-General is of the view that this special cost sharing arrangement represents a fair distribution of costs given the contribution of APOs to the work of the Organization and the need to limit the contribution of the Regular Programme to the support of the Field Programme.

- **National Execution**

83. The issue of national execution and the impact of the new arrangements on this modality of execution has also been raised.

84. The introduction of the new arrangements would not alter the Organization's policy concerning national execution, bearing in mind that Trust Fund programmes channelled through multilateral institutions usually emphasize the use of international expertise and inputs, while projects for national execution tend to be funded bilaterally. By differentiating the project components more clearly than under the present system, the execution of some of these (e.g. training programmes) by government authorities will be facilitated. The appointment of national project personnel follows a similar cluster within the UNDP Successor Arrangements which governments have already accepted.

85. The Director-General is therefore confident that the new arrangements will support the gradual assumption of execution responsibility by national governments.

- **Competitiveness, Quality and Quantity of the Field Programme**

86. The immediate short-term affect on the Organization's apparent competitiveness and therefore on the size of the Trust Fund programme is likely to be seen in a possible reduction in the size of the programme. Some donors, in their statements to the Council, made it clear that their involvement in the Trust Fund programme would need to be reassessed if the new arrangements are approved. While some significant changes have been introduced to accommodate the wishes of the donors in response to the request of the Council, these may not be sufficient for all donors.

87. Furthermore, the new arrangements make certain forms of project particularly expensive and therefore there is likely to be a decline in demand for these except where FAO has a unique capacity to provide the services in question. These are areas where a secretariat cannot prejudge donor action.

88. On the other hand, the quality of the programme, regardless of its size, is expected to improve considerably simply because of the improved resource situation and the allocation of the resources to those units providing the services. The ratio of support cost resources (including technical support services) is expected to improve from about 19 cents for each US\$1 delivered to approximately 33 cents for each US\$1 delivered.

89. The Director-General is accordingly convinced that the overall effect will be to improve the quality of the Trust Fund programme and therefore, in the long run, to improve the competitiveness of the Organization in this field. However, he wishes to emphasize that pure cost competitiveness is not of the essence; rather the capacity of the Organization to meet the demands of Member Nations in its areas of competence is the issue and these proposed arrangements cannot fail to enhance that capacity.

● **Harmonization of Support Cost Arrangements in the UN System**

90. In the Council debate, several donors expressed a concern that FAO would implement its new arrangements while other agencies within the UN system continued under the old support cost regime. At the same time, it was noted that FAO is in the forefront of development of new support cost arrangements and its experience may help other agencies to develop adequate arrangements for support of their own field programmes.

91. Since the Director-General first raised this issue at the Twenty-sixth Session of the Conference, FAO has taken a number of steps to keep other agencies within the system fully informed of the proposed procedures. At a special meeting of agencies involved in the new UNDP Support Cost Successor Arrangements in Geneva, FAO fully briefed representatives of ILO, UNDES, UNDP, Unesco, and an observer from WHO on the report of the consultant which was presented to the Council in November of 1992.

92. In addition, in March of this year FAO provided copies of the consultant's reports and the Council papers to representatives to the CCAQ(FB) at its meeting in Vienna. Individual meetings have also been held with agencies at their request, and at FAO's request the consultant, who prepared the report submitted to the Council, has provided briefings to other agencies in the system.

93. Currently a number of agencies are studying the impact which field project support costs have on their regular programme and budget and analysing their ability to continue to finance these expenditures. Trust Fund support cost studies are reportedly underway in WHO, ITU, and UNDP-OPS, IFAD, and the World Food Programme. Each of these agencies has substantially different field programmes and their level of support and method of delivery differ significantly.

94. Each of these agencies and others facing the restrictions imposed by tight budgets will have to consider the most effective way of obtaining reimbursement for the support cost services provided to projects funded by multilateral, bilateral and unilateral donors or obtain additional regular budget support from their members.

95. The former arrangement of imposing a fixed rate to be used by all agencies was effective in a time of an increasing field programme and periodic real increases in regular budget resources. In today's financial environment, with reduced budget resources it is essential that support cost arrangements be designed to meet the individual needs of each agency and ensure that they are reimbursed only for actual costs as they are incurred.

96. The former arrangements, providing a single rate for all except the smallest agencies, penalized those agencies with headquarters in high cost locations. In addition, they

provided similar reimbursement for agencies which maintained their own field presence in countries and those which could avail themselves of services provided by the UN Resident Representative often without charge. They made no distinction between agencies whose delivery included primarily high cost services such as training and the recruitment and placement of short-term consultants and those which concentrated on services which could be provided at lower cost per US\$ of delivery.

97. FAO will continue to work with other agencies in efforts to coordinate Trust Fund support cost arrangements. However, donors and recipient governments will recognize that if the arrangements are to be useful in revitalizing field programmes, improving agency efficiency and accountability, and providing donors with transparency, all concerned will have to address these issues in their respective contexts.

### **VIII. PROCEDURES FOR IMPLEMENTATION**

98. It is the view of the Director-General that the new Trust Fund support cost arrangements, as outlined in this proposal, can be implemented in a straightforward manner without major costs, and with substantial benefit to recipient governments, donors and the Organization.

99. Generally, the proposals follow the concepts provided in the UNDP Support Cost Successor Arrangements. A separation between technical support services and administrative and operational support has already been implemented in connection with the TSS-1 and TSS-2 facilities. Therefore it is anticipated that arrangements for the Trust Fund technical support facility can be implemented without major changes to either the accounting or project management systems.

100. The procedures and the final approach as proposed in connection with the provision of technical support services will enhance the quality of technical support and improve accountability to donors. They will become an integral part of department and organization management, and it is believed that they can be initiated with only minor changes in staffing and enhancements to existing computer support.

101. The procedures for charging administrative and operational support are similar to those currently applied to Trust Fund projects in that a flat percentage is applied to project delivery.

102. A key element in the success of the implementation of the new arrangements will, however, be the ability of Organization staff, donor and recipient government representatives to identify and define as early as possible not only the various inputs but also the required technical support services to be provided by FAO. This will call for an enhancement of the Organization's formulation capacity.

103. In order to assist in implementing the budgetary changes which will be required if the new arrangements are implemented, it is intended to pursue, in addition to the required training and briefing, a number of improvements, such as:

- (a) the introduction of a computer-assisted project budgeting system which provides automatic calculation of the various support cost charges and will assist in the computation of travel costs, salary costs, and budgeting for procurement;
- (b) the development of standard parameters which can be used in budgeting for various technical support services required for differing types of projects, along with standard costing;
- (c) the strengthening of the formulation process within the relevant organizational units.

104. It is proposed that the new support cost arrangements for Trust Funds take effect on 1 January 1994. These arrangements would apply to all new projects implemented after that date, including new phases of existing projects.

105. Projects in operation on 31 December 1993 and beyond, for which agreements have been concluded with donors prior to this date, would continue to be subject to the old arrangements. Additional funding to be made available through revisions to complete these projects would also continue to be subject to the current policy on support costs.

106. The rates shown in Appendix A will be adjusted for application in 1994-95. Any exception or waiver to these rates will be reported to the Finance Committee in accordance with standard practice.

#### **IX. ARRANGEMENTS FOR REVIEW**

107. In view of the suggested application of the new arrangements, the full impact of these will only be apparent in projects approved after 1 January 1994, the implementation of which can be expected to be initiated in the forthcoming biennium. The Director-General suggests that the effects of the new arrangements be reported to the Conference at its Twenty-eighth Session, in November 1995, through the Programme and Finance Committees and the Council. This would enable the Conference to consider any modification in the arrangements that it might deem fit.

**APPENDIX A**

**ILLUSTRATIVE TABLE: TRUST FUND SUPPORT COST BUDGETING RATES <sup>1</sup>**

Expenditure Group	Rate Method	Illustrative Rate based on 1992-93 Costs
<p><b>Technical Support to Projects</b> including all time spent on technical assistance to projects along with time spent performing related functions at HQ. Includes evaluations and project specific internal audit services.</p>	<p>A rate per month would be charged for a budgeted number of days in the field times a factor for HQ work (i.e. for each day's DSA in the field - three days will be paid for HQ work).</p>	<p>US\$14 300 per month</p>
<p><b>AOS Direct Services</b> including:  <ul style="list-style-type: none"> <li>. preparation and review of purchase and contract specifications;</li> <li>. review and selection of candidates;</li> <li>. roster maintenance;</li> <li>. fellowship placement;</li> <li>. arrangements for training;</li> <li>. project task force meetings and operating division services; and</li> <li>. project related services from Regional Offices and FAORs.</li> </ul> </p>	<p><b>Procurement:</b> PSC Percent of delivery  <b>Local Staff:</b> PSC Percent of delivery  <b>International Experts:</b> Lump sum US\$ fees for each recruitment plus a monthly handling charge.  <b>Fellowships and Training:</b> Lump sum US\$ fees for placement of fellows and travel services plus a monthly handling fee. Fee plus per participant charge for study tours and % for group training.</p>	<p><b>Procurement:</b> 11.9% of delivery  <b>Local Staff:</b> 19.3% of delivery  <b>International Experts:</b> US\$12 700 on initial recruitment on a project plus US\$800/mth handling  <b>Fellowships:</b> US\$2 100 on placement plus US\$140/mth  <b>Study Tours:</b> US\$3 000 plus US\$210/participant  <b>Group Training:</b> 52.9% of delivery.</p>
<p><b>AOS Direct Services</b> including direct charges from GIP and AFC for services rendered to projects and a space fee for HQ-located project staff.</p>	<p>As per key unit costs of divisions concerned.  A monthly rate for HQ space charges.</p>	<p>Divisional key unit costs.  Space charge of US\$365 per month per office unit as applicable for HQ-based project staff.</p>
<p><b>AOS Indirect Incremental Services</b> including project management by DDFR, project accounting by AFFA and Operating Units, project budgeting by PBE and Trust Fund-related services by the DDF Regional Bureaux.</p>	<p>A percentage charge on total project delivery excluding TSS services and other AOS charges.</p>	<p>Approximated at 2.6% of delivery excluding TSS and AOS.</p>
<p><b>Fixed Indirect Services</b> including generalized services provided by AF department, AUD, LEG, GIL and PBE plus charges for external auditors.</p>	<p>No charge to donors as it is seen as being FAO's cost sharing contribution to the Trust Fund field programme.</p>	
<p><b>Indirect Services</b> including ODG, GII, OER, GIC and C&amp;C.</p>	<p>Costs were excluded from the study.</p>	<p>Not applicable.</p>

<sup>1</sup> Calculated for illustrative purposes on the basis of 1992-93 biennium costs and 1990-91 Trust Fund delivery.

**APPENDIX B****A. Trust Fund Programmes not Subject to the Standard Support Cost Rate**

1. A number of exceptions have been granted by both legislative and executive action to the General Rule providing for reimbursement of field project support costs at 13 percent of delivery. Some of these exceptions, resulting from waivers granted prior to 1975 and others, are more recent. Generally, the exceptions fit into the following categories:

- Special programmes
- Associate Professional Officers Scheme (APO)
- Emergency relief projects - Office of Special Relief Operations (OSRO)
- Projects with procurement as the primary input
- Specific waivers for Trust Fund contributions in support of Regular Programme activities
- United Nations-financed activities

2. The value of these exceptions is significant. For 1992, the approximate value of all waivers - the difference between 13 percent of delivery and the amount charged - was approximately US\$ 5.9 million. This amount represents 3.1 percent of total Trust Fund field expenditures, reducing the Organization's total reimbursement for Trust Fund support costs.

3. It is proposed that under the new support cost arrangements for Trust Funds, waivers be limited to:

- (a) those relating to emergencies, where charging the entire rate or charge might jeopardize the Organization's ability to implement the project;
- (b) those relating to other UN agencies where the Organization has agreed to administer funds notwithstanding limitations imposed on support cost reimbursement by the governing body of the agency providing the funds.

4. Following are specific proposals relating to each of the existing waivers previously granted in connection with support cost funding:

- **Special programmes**

5. Currently, a waiver is in effect which reduces the support costs charged to the International Fertilizer Scheme to 5 percent.

6. This programme is currently being phased down and very little new funding is anticipated other than funds provided to close out existing projects. Under the proposals for implementation of the new Trust Fund support cost arrangements, existing projects would be subject to the rules in place on 31 December 1993. Therefore, these projects would continue to be charged for support costs at the 5 percent rate.

7. Should new projects be implemented under this programme or funds granted for new phases, it is proposed that the new Trust Fund support cost arrangements apply. Such projects would be subject to the full rates or lump sum charges, and would be expected to reimburse the Organization for any technical support services received.

**- Associate Professional Officer Scheme (APO)**

8. Currently, the APO projects are charged 12 percent of total costs (including salary, travel, training) for support services provided.

9. In recognition of the value of the services provided to the Organization by APOs, it is appropriate to continue to have a separate category of charges for APOs.

10. In Annex 1, exhibit V-A of the consultant's report, which was made available at the Hundred and Second Session of the Council, it was noted that the total cost of administrative and operational support services provided to APO projects represented 12.77 percent of delivery based on 1992-93 budgeted costs, compared to 12.19 percent for other international personnel. In the report, the consultant included APOs in the general category of international personnel. Since APOs have a lower recruitment cost and handling cost than other categories of international personnel, this could result in the APO projects being charged higher than the cost.

11. It is, therefore, proposed that separate lump sum charges be established for APO recruitment and APO maintenance using calculations similar to those used in the consultant's report. This would result in the following charges:

Lump sum recruitment charge	US\$9 765
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Monthly handling charge	US\$525
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12. Separating the APO project personnel from other international personnel results in slightly higher charges for these categories which are reflected in the proposed rates and charges. Converting the estimated recoveries to a percentage results in reimbursement equalling approximately 12.8 percent of total delivery.

13. The 2.3 percent charge to cover other incremental direct costs would be waived in connection with APO projects in recognition of the services they provide. However, in addition to the charges indicated, should donors wish specialized technical services such as attendance at training, recruitment meetings, or interviews in donor countries, all related direct costs and the TSS reimbursement for the time would be included in project budgets.

**- Emergency relief projects - Office of Special Relief Operations (OSRO)**

14. OSRO-administered projects are currently charged "direct operating costs" which average 5 percent of total delivery for project administration. The income from these projects covers the costs of the OSRO office personnel and allows for contribution towards AOS services provided by other units in the Secretariat.



15. The delivery inputs in OSRO projects are primarily (92 percent) procurement. OSRO has been granted certain exceptions to the general rules for tenders and use of local purchases in connection with its procurement. This may tend to reduce its costs in comparison with other projects. In addition, where international project personnel are required, OSRO maintains its own rosters and handles some of the administrative support necessary for recruitment.

16. A survey by the consultant of some of the other international organizations involved in relief operations indicates that project support cost charges range from 6% to 13 percent. In addition, other agencies tend to charge some services directly to project budgets which FAO considers part of support costs.

17. It is proposed that a flat rate be established for OSRO projects which would be sufficient to cover the costs of the operation of the OSRO Unit within the Agricultural Operations Division (AGO) and one-half of the costs for AOS support. This would result in a rate of 9 percent which includes 3 percent to cover OSRO staff plus 6 percent or half of the proposed rate of 11.9 percent for procurement, as presently estimated. This rate would be applied to all OSRO delivery inputs.

18. In addition, if OSRO made use of technical support services (sending a procurement specialist or technical officer to a project site) the project would be charged for the officer's time based on the TSS rate.

19. The same rules would be applied to other emergency programmes which may be established from time to time (e.g. SECNA, ECLO, etc.).

**- Projects with procurement as the primary input**

20. Currently, a rate of 7 percent is used in connection with supply and equipment procurement costs where the procurement component of a project represents 40 percent or more of the total project budget. The remaining components are charged at the 13 percent rate. Where procurement represents 70 percent of the total budget, the 7 percent rate applies to total project expenditures.

21. This scale was decided upon before information was available on the actual costs of providing procurement services, and was based upon an assumption that procurement was generally less expensive than other support services. Since a rate is now available specifically relating to the costs of procurement, it is recommended that this waiver be discontinued, and the full procurement rate be charged.

**- Specific waivers for Trust Fund contributions in support of Regular Programme activities**

22. The existing procedures allow for the granting of specific waivers to individual projects under the authority of the Office of Programme, Budget and Evaluation (PBE). All such waivers are reported in an annual report to the Finance Committee.

23. An analysis of past waivers as reported to the Finance Committee over the last five years reveals that this type of waiver applied to budgets totalling US\$6.7 million (less 1 percent of total delivery in the same period) and that they resulted in a waiver of support cost income totalling US\$745 000.

24. The definition of what constitutes direct support to a Regular Programme activity is problematic as all Trust Fund projects are in performance of activities which are covered in one way or another under the Organization's Regular Programme. As can be seen from the extent to which it has been used, PBE has been rigorous in preventing a general application of this type of waiver.

25. Given that there are clearly cases where a donor is simply offering to reinforce an existing Regular Programme activity and is not employing the Organization in the conventional delivery of the donor's technical assistance programme, it is proposed that this flexibility be maintained under the new arrangements. The Secretariat will continue to report all such waivers to the Finance Committee on an annual basis.

**- United Nations-financed activities**

26. Special arrangements exist covering relationships with the administration of projects financed by certain agencies and funds within the United Nations system. These arrangements include:

- (a) **Trust Funds or other funds administered by UNDP:** In accordance with Governing Council Decision 92/22, subject to the new UNDP Support Cost Arrangements, UNDP reimburses United Nations agencies at the same rates for administrative and operational support services rendered under projects financed from UNDP Trust Funds and other funds under the authority of UNDP, such as the United Nations Capital Development Fund (UNCDF).
- (b) **United Nations Population Fund (UNFPA):** Under the terms of the agreement with FAO, UNFPA provides reimbursement for support costs incurred as follows:
  - (i) for technical support personnel, actual salaries, General Service support plus US\$5 000 for incidentals and space are reimbursed for personnel located in Headquarters and Regional Offices;
  - (ii) for country projects, support costs are reimbursed at 7.5 percent of project delivery expenditures;
  - (iii) for global, interregional and regional projects, support cost reimbursements arrangements are in the process of being determined.
- (c) **Other United Nations agencies:** Other United Nations agencies and funds generally reimburse at the 13 percent level or, if they are under the jurisdiction of the UNDP Governing Council, they are subject to the support cost successor arrangements.

27. Since the United Nations agencies are independent organizations with their own governing bodies, it is not possible at this time to address the arrangements for support cost reimbursement. Any changes desired by the FAO Governing Bodies would need parallel action by Member Nations in the other governing bodies.

**B. Joint Arrangements with other United Nations agencies**

28. Trust Fund projects often involve participation of several United Nations agencies in their execution. In such cases, FAO may serve as the lead agency responsible for overall project administration and subcontracting with one or more other agencies for specific services. In other cases, FAO cooperates with another United Nations agency in the administration of a project for which that agency is responsible.

29. Currently, most agencies charge support costs at the 13 percent rate, though exceptions have been implemented for smaller agencies. Therefore, when the Organization participates in a project with multi-agency administration, the 13 percent rate is normally used by both agencies to charge for support costs incurred.

30. It is proposed that under the new arrangements FAO charge support costs in accordance with the methodology outlined above, with separate facilities for technical support and administrative and operational support. If FAO is the lead agency, its subcontract with the cooperating agency(ies) would provide for reimbursement in accordance with that agency's standard practice.