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FINANCE COMMITTEE

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Annual Report on Support Costs Expenditure and Recoveries

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EXECUTIVE SUMMARY

- This paper reports on the implementation of the legacy FAO policy for setting project project servicing cost (PSC) rates for 461 Trust Fund projects opened during the period June 2016 through May 2017. It provides a categorized distribution of the PSC rates applied to these projects in terms of project numbers and lifetime budgets. It is noted that about 74.6% 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 legacy policy.
- During 2017, the Secretariat is applying the new FAO policy on cost recovery to selected projects under formulation in close collaboration with the resource partners involved. The new policy will be fully implemented during the 2018-19 biennium.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to note the experience in the implementation of the legacy policy for setting project servicing cost rates during the period June 2016 - May 2017.

Draft advice

- **The Finance Committee took note of the implementation of the legacy policy for setting project servicing cost rates during the period June 2016 - May 2017.**

1. This document reports on the application of the legacy FAO policy for setting project servicing cost (PSC) rates for the period June 2016 to May 2017. The legacy policy is being applied during 2017 while FAO is transitioning with resource partners to the new Cost Recovery Policy¹ which will recover direct support costs (DSC) and indirect support costs (ISC).
2. The categories of extrabudgetary funded projects to which PSC rates apply were defined under the legacy policy as: technical assistance and direct support of Regular Programme (RP) activities, where a standard 13 percent rate applied; emergency assistance, where a ceiling rate of 10 percent applied; and jointly funded activities (zero to 10 percent). The PSC 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 PSC rates is entrusted to the Office of Strategy, Planning and Resources Management.
3. The statistics provided in this report cover the period from 1 June 2016 through 31 May 2017, during which FAO opened 461 Trust Fund projects with PSC rates. Table 1 provides a categorized distribution of PSC rates applied to these projects in terms of the number of projects and the lifetime budgets. All projects have been charged at PSC rates that fall within the legacy policy.
4. The vast majority of projects – 74.6 percent by value - are charged at their ceiling rates, as shown in rows 1-4 of Table 1. As requested by the Finance Committee, for projects approved at their ceiling rates the table provides statistics on the type, number and value of such projects approved at non-standard and standard PSC rates.
5. The projects tabulated in rows 5-10 of Table 1 are in categories charged below the ceiling rate within the legacy policy (25.4 percent of cases by value).
6. The percentage of total budgets approved at their ceiling rates decreased from 81.2 percent of total budgets by value in the previous reporting period to 74.6 percent in the current period, mainly due to the increase in other categories, in particular under the projects funded by the Global Environment Facility and projects with high proportion of contracts, supplies and equipment.
7. During 2017, the Secretariat is applying the new FAO policy on cost recovery to selected projects under formulation in close collaboration with the resource partners involved. The new policy will be fully implemented during the 2018-19 biennium and the reporting format of the next Annual Report will be updated accordingly.

¹ FC 161/6

Table 1: *Distribution of the categories of PSC rates applied to projects opened June 2016 – May 2017 by number and value*

| PSC Category | | Number of Projects | Lifetime Budget (USD'000) | % of Total Budget |
|--|---|--------------------|---------------------------|-------------------|
| Projects approved at their ceiling rate | | | | |
| 1 | Emergency assistance projects approved at their ceiling rate | 171 | 355,218 | 45.8% |
| | a) Emergency assistance projects approved at their ceiling rate- PSC % charge at 7% (EU, CERF, etc.) | 81 | 162,045 | 20.9% |
| | b) Emergency assistance projects approved at their ceiling rate- standard PSC % charge | 90 | 193,173 | 24.9% |
| 2 | Technical assistance projects approved at their ceiling rate | 70 | 109,005 | 14.0% |
| | a) Technical assistance projects approved at their ceiling rate -PSC % charge at 7% (EU, CERF, etc.) | 39 | 69,428 | 8.9% |
| | b) Technical assistance projects approved at their ceiling rate - standard PSC % charge | 31 | 39,577 | 5.1% |
| 3 | Projects in direct support of RP activities at their ceiling rate | 73 | 110,857 | 14.3% |
| | a) Projects in direct support of RP activities at their ceiling rate - PSC % charge at 7% (EU, CERF, etc.) | 25 | 66,644 | 8.6% |
| | b) Projects in direct support of RP activities at their ceiling rate - standard PSC % charge | 48 | 44,213 | 5.7% |
| 4 | Decentralized Cooperation Programme | 1 | 3,937 | 0.5% |
| Subtotal - projects approved at their ceiling rate | | 315 | 579,017 | 74.6% |
| Projects charged below the ceiling rate within the policy | | | | |
| 5 | Global Environment Facility | 40 | 105,174 | 13.5% |
| 6 | Technical Support Services | 1 | 1,200 | 0.2% |
| 7 | Projects with high proportion of contracts, supplies and equipment (Manual Section 250 Annex II applies) | 5 | 47,029 | 6.1% |
| 8 | Projects in direct support of RP activities approved at lower than ceiling rate (where circumstances in conformity with policy apply) | 14 | 11,062 | 1.4% |
| 9 | United Nations Joint Programmes | 23 | 31,598 | 4.1% |
| 10 | Telefood – zero rate per Conference Resolution 3/97 | 63 | 962 | 0.1% |
| Subtotal - projects charged below the ceiling rate within the policy | | 146 | 197,025 | 25.4% |
| Grand Total | | 461 | 776,041 | 100% |