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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 FAO policy on support costs for the period June 2009 through May 2010, during which time FAO opened 602 Trust Fund projects. The paper provides a categorised distribution of the project servicing costs (PSC) rates applied to these projects in terms of project numbers and lifetime budgets. It is noted that about 82.5% of new projects (by value) approved during the period have been sanctioned at their ceiling rates, and the remaining projects have been charged at rates that fall within the currently approved policy.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

➤ The Committee is invited to note the experience in the implementation of the policy of support costs during the period June 2009-May 2010.

Implementation of the Support Cost Reimbursement Regime

1. The FAO policy for setting project servicing cost (PSC) rates was endorsed by the Council in November 2000¹. The policy is based on the principle that there should be a reasonable alignment of charges to the actual costs of providing administrative and operational support (AOS) to projects, taking due regard of existing arrangements and the need for a simple and transparent approach. Refinements to the application of the policy were made in September 2001, September 2002², September 2005³ and September 2006⁴. A proposal to further refine the policy is presented in document FC 135/9.
2. The categories of extrabudgetary funded projects to which PSC rates apply are defined as: *technical assistance* and *direct support of Regular Programme (RP) activities*, where a standard 13 percent rate is in effect; *emergency assistance*, where a ceiling rate of 10 percent applies; and *jointly funded activities* (zero to 10 percent). The rate may be reduced when the variable indirect support costs on a given project are expected to be lower. The function of appraising variations from standard rates is entrusted to the Office of Strategy, Planning and Resources Management. Within each category, the circumstances that merit a departure of PSC rates from the applicable ceiling rates are identified.
3. The statistics in the table overleaf cover the period from 1 June 2009 through 31 May 2010, during which FAO opened 602 Trust Fund projects. The table provides a categorized distribution of PSC rates applied to these projects in terms of both number of projects and lifetime budgets. It is noted that all projects have been charged at rates which fall within the presently approved policy.

¹ CL 119/13 Annex II

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

Distribution of the categories of PSC rates applied to projects opened June 2009 – May 2010

| PSC Category | | Number of Projects | Lifetime Budget (USD) | % of Total Budget |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------|-------------------|
| 1 | Emergency assistance projects approved at their ceiling rate | 195 | 228,715,187 | 42.0% |
| 2 | Technical assistance projects approved at their ceiling rate | 108 | 157,728,318 | 29.0% |
| 3 | Projects in direct support of RP activities at their ceiling rate | 41 | 62,662,483 | 11.5% |
| 4 | Decentralized Cooperation Programme | 2 | 227,928 | 0.0% |
| 5 | Global Environmental Facility | 10 | 1,915,000 | 0.4% |
| 6 | Technical Support Services | 8 | 475,000 | 0.1% |
| 7 | Projects with high proportion of contracts, supplies and equipment (Manual Section 250 Annex II applies) | 13 | 27,349,671 | 5.0% |
| 8 | Projects in direct support of RP activities approved at lower than ceiling rate (where circumstances in conformity with policy apply) | 3 | 422,644 | 0.1% |
| 9 | United Nations Joint Programmes | 66 | 59,084,654 | 10.8% |
| 10 | Telefood – zero rate per Conference Resolution 3/97 | 156 | 6,225,630 | 1.1% |
| | Grand Total | 602 | 544,806,515 | 100.0% |

4. The table demonstrates that the vast majority of projects are charged at their ceiling rates (i.e. rows 1-3 inclusive account for 82.4 percent of cases by value) and, therefore, that the flexibility is administered carefully. The projects tabulated in rows 4-10, while resulting in modified rates, do so within the approved policy.

5. Compared with the preceding period, the number of projects opened declined by nearly 12.6 percent and the average size of projects (excluding TeleFood) decreased by about 27 percent to USD 1.21 million. There was also a significant decline in the overall level of budgets approved that went from USD 727 million to USD 544 million.

6. The number and value of total budgets approved at their ceiling rates declined slightly (from 88 percent of total budgets by value in the previous reporting period to 82.4 percent in the current period), due mainly to the significant increase in the United Nations Joint Programmes (UNJP), which more than doubled since last year from 3.9% to 10.8% of the total by value. Projects under the UNJP are charged 7 percent PSC, with the balance up to 13 percent recovered from direct charges to project budgets.

7. The value of projects approved under the GEF (Global Environmental Facility) funding declined significantly, since nine of the ten projects approved were under the Project Preparation Grants (PPG) scheme. It is expected that the projects currently being developed under these grants will subsequently evolve into major activities involving full-fledged funding.