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## FINANCE COMMITTEE

**Hundred and Fifty-first Session**

**Rome, 11 - 15 November 2013**

**Annual Report on Support Costs Expenditure and Recoveries**

Queries on the substantive content of this document may be addressed to:

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### EXECUTIVE SUMMARY

- This paper reports on the implementation of the FAO policy on support costs for the period June 2012 through May 2013, during which time FAO opened 556 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 90.4 percent 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 2012-May 2013.

#### Draft Advice

- **The Committee took note of the implementation of the policy of support costs during the period June 2012-May 2013.**

## 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 2000.<sup>1</sup> 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 2002,<sup>2</sup> June 2005<sup>3</sup> and September 2006.<sup>4</sup> 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 2012 through 31 May 2013, during which FAO opened 556 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.
4. The table demonstrates that the vast majority of projects are charged at their ceiling rates (i.e. rows 1-3 inclusive account for 90.4 percent of cases by value) and therefore that the flexibility is administered carefully. The projects tabulated in rows 4-9, while resulting in modified rates, do so within the approved policy.
5. The weight of total budgets approved at their ceiling rates slightly increased compared with the previous period (from 89.8 percent of total budgets by value in the previous reporting period to 90.4 percent in the current period), due mainly to the increase in technical assistance projects and decline in other categories, where lower PSC rates were applied in conformity with the policy.

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<sup>1</sup> CL 119/13 Annex II

<sup>2</sup> CL 121/4 and FC 100/5

<sup>3</sup> CL 128/4 and FC 110/4

<sup>4</sup> CL 131/7 and FC 115/14

**Distribution of the categories of PSC rates applied to projects opened June 2012 – May 2013**

<b>PSC Category</b>		<b>Number of Projects</b>	<b>Lifetime Budget (USD)</b>	<b>% of Total Budget</b>
1	Emergency assistance projects approved at their ceiling rate	170	235,768,773	43.6%
2	Technical assistance projects approved at their ceiling rate	87	216,991,929	40.2%
3	Projects in direct support of RP activities (at their ceiling rate)	52	35,589,283	6.6%
4	Decentralized Cooperation Programme	1	31,715	0.0%
5	Global Environment Facility	22	3,293,833	0.6%
6	Projects with high proportion of contracts, supplies and equipment (Manual Section 250 Appendix A applies)	12	26,845,803	5.0%
7	Projects in direct support of RP activities approved at lower than ceiling rate (where circumstances in conformity with policy apply)	8	2,805,202	0.5%
8	United Nations Joint Programmes	25	17,268,307	3.2%
9	Telefood - zero rate per Conference Resolution 3/97	179	1,706,887	0.3%
<b>Grand Total</b>		<b>556</b>	<b>540,301,732</b>	<b>100.0%</b>