



EUROPEAN COMMISSION
 Directorate-General for International Cooperation and Development
Head of Unit R3

Brussels, 21/11/2016
 devco.r.3(2016)7036288

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Subject: Clarification note on uplifts charged by FAO

According to the explanations provided by FAO, the costs of project staff are charged to projects funded by the EU, as for all donors, on the basis of:

- Actual monthly payroll items: net base salary, post adjustment etc. as shown on the pay-slip together with charges for the Organization's contributions to social security schemes (UN Pension Fund and medical insurance) etc.
- A percentage "uplift" applied to monthly salary costs as described above. The percentage rate is set at the value estimated to recover the ongoing costs arising from payments and charges for all staff entitlements not processed through monthly payroll. Major elements of these other entitlements are: installation allowance payments, repatriation grant funding, after service medical cost funding, home leave and education travel cost payments.

In other terms, for staff employed on FAO projects funded by donors, the approach used to cover the cost elements of staff remuneration other than monthly pay elements is to charge a percentage each month based on the applicable total of these costs. The uplift percentage is calculated to offset, over the course of the year in course payment of these entitlements to the staff and other such charges made during the year.

As FAO itself states in its explanation: the charges made through the uplift will not correspond to the cost of the actual entitlements of staff on a particular project but to the average cost of all the eligible entitlements charged in that year for all staff in the category concerned.

While the category of costs covered by the uplift does not generate issues of eligibility, the method used to calculate the uplift is not compatible with the definition of direct costs.

In facts these costs do not correspond to the actual situation of the given staff member, but rather represent an estimate of average organization-wide payroll related costs. As such, at the individual level these costs are not "actually incurred" during the implementation period of the specific agreement, are not substantiated by supporting documents and do not therefore comply with the definition of direct eligible costs.

Acceptability under the different contractual templates:

Standard Contribution Agreement

Article 14.2 of the GC of Contribution Agreements (version 2008, 2011, March 2013) includes provisions among the different categories of eligible direct costs:

"the cost of staff assigned to the Action; corresponding to actual salaries plus social security charges and other remuneration-related costs (including in the form of provisions made in accordance with the Organisation accounting rules in case of Joint Management Actions)".

By definition, a provision ("a planned future expenditure which is measured at the best estimate of the expenditure required to settle the present obligation") is not an incurred cost. However the GC accept "provisions" as eligible direct cost to cover "other remuneration related costs" made in accordance with the Organization accounting rules.

The uplifts being "estimates to recover the ongoing costs arising from payments and charges for all staff entitlements", can be considered as a provision, and therefore be recognized as eligible.

It should be noted that the monthly item has to be actual and only the other remuneration-related costs (costs elements other than monthly pay) can be charged in the form of provisions (i.e. not actual costs). This means that the salaries plus social charges should be actual salaries related to the specific staff member assigned to the project (i.e. they should not be a unit cost); to these actual salaries a percentage/provision (the uplift) can be added to cover other related remuneration costs in accordance with the rules of the Organization.

Nonetheless, in the framework of a verification, the Organization should be able to provide an accurate description of the method used by the Organization to calculate and charge to the project the uplift, including the necessary supporting documents showing that the uplift charged is in line with the standard practices of the Organization.

IMDA

In case of IMDA, the possibility to charge remuneration related costs as "provision" is not expressly foreseen. Therefore, because at individual level the uplifts are not "actually incurred" during the implementation period of the specific agreement and are not substantiated by supporting documents, they cannot be considered as eligible costs because not complying with Article 18.1.

The reason is that under IMDA Article 18.2 includes as eligible staff costs "a) The costs of the Organisation's staff directly assigned to the implementation of the Action corresponding to salaries plus social security charges and other statutory costs included in the remuneration of the staff and provided in accordance with the Organisation's policy..." and such costs are eligible only provided that they satisfy the conditions of eligibility set out at Article 18.1.

However, in case of IMDA still in force at the time as from which Decision C(2015)350 entered into force, uplifts (as other unit costs for the reimbursement of the costs of staff) declared in accordance with the usual cost accounting practices of the Organization, can be considered eligible when they comply with the conditions set at point 3.1 of the Annex to Decision C(2015)350 of the 30/01/2015 amended by Decision C(2016)3631 of the 16/06/2016.

PAGoDA

Under PAgODA uplifts as other unit costs (for the reimbursement of the costs of staff) declared in accordance with the usual cost accounting practices of the Organization, are considered eligible only when they comply with the conditions set at point 3.1 of the Annex to Decision C(2015)350 of the 30/01/2015 amended by Decision C(2016)3631 of the 16/06/2016.

The provisions authorising the use of reimbursement of the staff costs on the basis of unit costs applies to grant contracts, delegation agreements and contribution agreements which are in force as from the date on which Decision C(2015)350 entered into force.

Unit R2 of DEVCO is already in contact with FAO HQ in order to establish the compliance of FAO's cost accounting practices for staff costs with the above mentioned Decision in a centralised manner.

[e-signed]

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Enclosure: Annex to the Commission Decision C(2015)350 on the use of unit costs to reimburse costs of staff.