**Budget Management Guideline****s**

Office of Support to Decentralized Offices (OSD)

9 January 2018

1. **PURPOSE**

The purpose of the Budget Management Guidelines is to provide comprehensive information for the allocation and management of Regular Programme (RP) resources for the Decentralized Offices (DOs), specifically for the Country Offices (COs) network (the FAOR Network).

The ultimate goal is to ensure optimal use of resources available for COs to deliver the corporate results of the “Programme of Work and Budget (PWB)” at country level.

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| Available Resource Base for Country Offices (COs) 1. Allotment from approved PWB budget allocated to the FAOR Network;
2. Reimbursement of the cost of *administrative and operational support* *services* (AOS)[[1]](#footnote-1) and *technical support services* (TSS) provided by FAO Country Offices to projects (managed as “*income*” in the General Fund);
3. *Technical Cooperation Programme (TCP)* projects (managed in Other Funds);
4. *Trust Funds* (managed in development and emergency projects);
5. *Host country contributions* for offices (provided and managed in various forms: Government Counterpart Cash Contribution [GCCC] in General Fund, Trust Funds, and Government Provided Staff [GPS] with no financial implications, etc.);
6. Various *Proceeds from sale* of out-date/surplus equipment;
7. VAT Reimbursements;
8. Any other Special allocation for Country Offices.
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1. **PRINCIPLES**

The management of the FAOR Network resources shall follow the Organization rules and regulations of, particularly on financial management[[2]](#footnote-2) and budgetary management[[3]](#footnote-3).

The allocation of resources from Regional Offices (ROs) to COs shall be made in a transparent justifiable and equitable manner. A degree of flexibility shall be managed by the ROs while keeping in mind the regional priorities, in-country situations and Organizational objectives.

Regional Offices will use a set of defined criteria to allocate resources to Country Offices in collaboration with OSD.

OSD, ROs and COs will keep close communication and coordination regarding the issues/challenges encountered in the management of the FAOR Network resources.

1. **ROLES AND RESPONSIBILITIES**

**The Regional Representative /Assistant Director-General (RR/ADG)** is the Budget Holder (BH) for the FAOR Network in the region. As Senior Managers in their Region, respective Regional Representatives are accountable to the Director-General through the Deputy Director-General Operations (DDG-O) for the following:

* Providing direction of the prioritized activities of the country offices under their responsibility;
* Planning and allocating budgetary resources to Country Offices taking into account areas such as, project portfolios, in-country situations, resources availability, etc;
* Monitoring and evaluation of FAORs budget performance of and making required adjustments in accordance with agreed work-plans;
* Ensuring the delivery of required corporate results against the allocated resources;
* Review and consolidate the FAORs Periodic Budget Reports (PBRs) into a regional report;
* Ensuring that the Regional FAOR Network expenditure do not exceed the allocation;
* Escalating issues and risks for higher attention;
* Accountable for the full utilization and adequate management of resources.

**The FAO Representatives (FAORs)** as Senior Managers in their respective country of assignment are responsible for the funds allocated to them by the Regional Representative, and in particular for:

* Planning and implementing the non-staff resources allocated by the Regional Office;
* Generating and recovering the planned income resources;
* Updating data in corporate systems (COIN, FPMIS); and reporting through Periodic Budget Reports (PBR);
* Reporting on the Office budgetary performance ;
* Responsible for compliance with budgetary guidelines;
* Ensuring that expenditures do not exceed the allocation provided by the Regional Office.

**The Office of Support to Decentralized Offices (OSD)** is responsible for:

* Allocating resources to corporate initiatives on behalf of the FAOR Network (UNRC contribution, COIN, etc...)
* Provide oversight on adequate distribution of resources to country offices by the Regional Office;
* Monitoring the performance of the RO in managing the FAOR Network;
* Monitoring the overall budgetary performance of the FAOR Network;
* Consolidating and reviewing the Regional PBRs into a global PBR for analysis and submission to DDG-O;
* Advising Senior Management in case of required about the need to shift of resources among the 5 regions;

**The Office of Strategy, Planning and Resource Management (OSP)** is responsible for:

* Establishing the income base for the FAOR Networks resources;
* Issuing the annual allotments for the FAOR Network resources to each region;
* Monitoring overall budgetary performance (including income management), and adjusting FAOR spending authority as required, in consultation with OSD.
* Advising the DDG (O) on budget related issues for the FAOR Network;
* Responding to budgetary issues raised at Regional and Global level.

**Deputy Director-General Operation (DDG-O), in consultation respectively with OSD and OSP)** is responsible for:

* providing guidance on the overall budget management of the FAOR Network;
* Authorizing shifts in resources from one region to another.
1. **AVAILABLE MANAGEMENT TOOLS/SYSTEMS**
* Field Programme Management Information System (FPMIS)
* Country Office Information Network (COIN)- Periodic Budget Reports (PBRs)
* Budget Management Module (eBMM)
* Integrated Management Information System (IMIS)

**Annex I. Proposal on New Management and Allocation Criteria of Regular Programme Resources (Assessed contribution and AOS)**

1. **BACKGROUND**

The Regular Programme resources for the country offices (COs) network (commonly referred to as the FAOR Network) was directly managed by the Regional Offices (ROs), with overall coordination and close monitoring of the Office of Support to Decentralized Offices (OSD) at headquarter level. In consultation with OSD and ROs, the Office of Strategy, Planning and Resource Management(OSP) allocates annual resources to the ROs for the management of the FAOR Network in their region.

At the beginning of the 2014-15 biennium, the allotment of the FAOR Network resources was modified. An estimated income target based on historical trend was introduced to the PWB allocation for the FAOR Network. The AOS earnings generated through project delivery at country level alone account for around 26% of the total resources. For the past several biennia, AOS earnings have been allocated directly to COs while the ROs has an income target.

The COs had to frequently update their estimate delivery in FPMIS and closely monitor the trends in order to accurately forecast and spend the related AOS earnings.. The ROs had to review and monitor each country’s estimation and made proper adjustment at regional levels as well. This is facilitated through the use of COIN and FPMIS.

1. **ISSUES AND CHALLENGES**

In general, the introduction of the estimated income from projects (mostly from AOS earnings) led to a perception of an overall reduction in net allotment at the regional level for the FAOR Network, which further led to drastic reduction of expenditures at regional and country levels due to inaccurate and/or conservative forecasting. The often conservative estimation of AOS earnings by COs and at regional levels led to a large underspending, while in some cases overspending was observed in case of over-estimation of AOS earnings. In addition, the capacity challenges and gaps at country level and complexity of various types of projects made the estimation and actuals even more complicated.

Overall, this methodology to present the income target affected the income planning at country level and brought challenges to the ROs as well.

1. **PROPOSAL**

To address the perceived difficulties of income estimation, a new proposal is developed in consultation with all relevant stakeholders involved in the management of the FAOR Network resources, in particular with regards to AOS resources. The proposal is to allocate in advance to each RO at the beginning of each year as non-staff allotment the estimated AOS forecast for both development and emergency projects that the FAORs would earn in their region.

The estimated AOS forecast will be done based on a formula considering: delivery estimates based on which the AOS estimate can be calculated; historical values of AOS earnings in the past years; and pipeline projects starting implementation next year, etc. The ROs will in turn decide on the distribution of the resources to each CO with certain criteria under their direct responsibilities.

The proposed new approach will be piloted and tested from the beginning of the 2018-19 Biennium. In this regard, the following two Guidelines below were developed by OSD for the timely and effective implementation of the proposal in the coming biennium.

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| *Please note that this new approach is relevant for Development and Emergency Projects at Country level only (Regional Projects are excluded).* |

**Regional Office: Guidelines and Criteria for Resources Allocation to COs**

The allocation of resources to COs shall be transparent, justifiable and equitable, with a certain degree of flexibility, keeping in mind the regional priorities and overall organizational objectives, as well as prevailing rules and regulation of the Organization on financial management.

COs will receive a base allotment followed by a central flexibility adjustment by the ROs. The base allotment will cover the cost of those providing administrative and operational support to projects, as well as the associated direct costs such as office running. After issuing the base allotment, the ROs would retain the remaining share of the available allotment as “flexibility allotment” (estimated at approximately 15% of total yearly allocation), to be issued no later than July.

A multi-criteria matrix shall be developed by each RO for a comprehensive analysis and decision-making. In particular, the following criteria are suggested:

1. **Basic Allotment**
2. **Country Office models and regional priority**: Allocation based on CO models and regional priority. New FAO Country Office Models 1-5, regional priorities, and FAO’s ongoing reform of the DOs network, as well as current staffing structure, in particular the AOS-funded posts, should be considered.
3. **Historical financial performance (allotment vs spending) and trends:** Equitable resource allocation considering a minimum requirements to run efficiently and a good record of prior years’ recurring costs to be updated annually to reflect the current costs of goods, services and utilities. Absorption capacity, i.e. the amount of time required to scale up or scale down the required administrative and operational support.
4. **Flexibility Allotment:**

1. **Current projects portfolio:** the level of project approvals is an indicative factor to consider for allocation of resources.
2. **Programme Development trends:** Resource mobilization efforts and capacity building efforts should will also be considered.
3. **Direct allocation**: *Ad hoc* allocations made through PBR forecasts with justified reasons and needs assessment, such as hire contractors on behalf of the COs, secondment of expertise, additional capacity building initiatives and training, etc.
4. **Thematic criteria**: Allocation based on certain thematic areas. Capital investments for ICT replacement, vehicles replacement, premises, equipment, etc.
5. **Others:** internal factors: i.e. non-AOS income (proceeds, VAT, GCCC, etc.) and in-country situations: economic outlook and potentials, political and security issues, protracted crisis, natural disasters, etc.

**Country Office: Guidelines on Financial and Income Planning**

**Total resources:** Country Offices will receive a base allocation inclusive of an AOS portion from the Regional Office for non-staff resources at the beginning of the year. Other financial resources expected to become available to the CO during the year, such as, secondment, GCCC, sale of surplus property, or VAT reimbursements, etc. should be well planned and closely monitored accordingly.

**Expenditures:** forecasts shall be planned and monitored for planned activities to be carried out during the year. In case of any changes associated with financial implications, report to ROs.

It is recommended that full Country Office costs be determined by explicitly considering direct costs, indirect costs and capital costs.

The following are examples of some costs, which might be included as direct costs

* Staffing costs including AOS funded positions;
* consumable supplies/office equipment
* Rent, utilities, maintenance/other running costs.

The ROs may also allocate *ad hoc* funding as incentive for strengthening Programme Development and Resource Mobilization.

In case of insufficient overall resources to cover the forecast expenditures, the CO may provide solid justifications and request for *ad hoc* direct allocation from ROs. COs shall use the Budget Management module in COIN to prepare a Periodic Budgetary Report (PBR) for ROs review and approval before committing any fund.

Note: COs will no longer need to manage AOS income target in COIN. However, as part of the operational responsibilities as the BH, the FAOR is still required to regularly update the FPMIS delivery records.

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| *Please note that above policy, guidelines and criteria will be piloted and tested from the beginning of the 2018-19 Biennium and subject for further review and refinement during the implementation process. The guidelines shall also be updated in line with changes of financial rules and regulations at the corporate level.* |

1. This applies to projects operated under the [legacy support cost model](http://intranet.fao.org/fileadmin/templates/faomanual/Budget/PSC-InfoNote-Dec2012.pdf). A new cost recovery policy has been introduced as of January 2018: <http://www.fao.org/3/a-mm966e.pdf> . [↑](#footnote-ref-1)
2. FAO Manual Section 202-Financial Regulations and Financial Rules: <http://intranet.fao.org/faohandbook/fao_manual/chapter_ii_finance/202_financial_regulations_and_financial_rules/202_index/> [↑](#footnote-ref-2)
3. FAO Budgetary Management documents: <http://intranet.fao.org/faohandbook/area/programme_budget/> [↑](#footnote-ref-3)