



## Emerging TOSSD Reporting Instructions: eligibility of costs in provider countries – administrative costs

*TOSSD Task Force Issues Paper<sup>1</sup> - Agenda item 7.d*

*30 January – 1 February 2019*

### I. INTRODUCTION: DESCRIPTION OF ADMINISTRATIVE COSTS AND CURRENT TREATMENT IN INTERNATIONAL STATISTICS ON DEVELOPMENT CO-OPERATION

1. Provider countries or institutions incur administrative costs when designing or implementing their development co-operation activities. These costs can relate to operating a development co-operation agency and paying the salaries of its staff (general costs), but can also be associated to specific countries, for example operating an office to support implementation of development co-operation in those countries or regions. A part of administrative costs is embedded in the budgets of individual development co-operation activities (e.g. specific costs associated with the supervision a project, general project overheads) and reported as part of the activities. This paper discusses administrative costs which are not included in activity costs.
2. In statistics on Official Development Assistance (ODA), the item “administrative costs not included elsewhere” covers the administrative costs of institutions responsible for the formulation and implementation of provider countries’ development co-operation programmes as well as costs related to development co-operation implemented by diplomatic missions. In the case of ODA activities implemented by multi-purpose executing agencies, the administrative costs are estimated (pro rata allocation based on ODA-eligible activities as a share of total gross disbursements of the agency).
3. The salary component of administrative costs of ODA relates to both serving staff and retired staff. For the latter, it includes either the pension payments made to retired staff whose salaries, had they remained at work, would have counted as administrative costs, or the current cost of the future pensions to be paid to serving staff. For individual diplomatic officers that perform aid-related duties on a part-time basis, a ceiling of 50 per cent of the total costs incurred in respect of them applies, unless the actual costs can be ascertained in the form of a charge to the development co-operation budget.
4. As regards the costs of premises, computers and motor vehicles, measurement is either as provided for in the budget of the unit concerned as a direct cost, or as an actual or imputed write-off for amortisation, but not as a combination of the two. In respect of premises in the provider country, only the costs of maintenance of buildings used for development activities may be reported as ODA but construction costs are excluded. Costs of construction of buildings in recipient countries are also excluded, unless the building concerned is to be donated to a developing country for development purposes.

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## II. ADMINISTRATIVE COSTS OF BILATERAL AND MULTILATERAL PROVIDERS AND THE RATIONALE FOR THEIR INCLUSION IN TOSSD

5. Administrative costs are incurred mainly in the provider country or institution, with the exception of their country / regional offices located in TOSSD-eligible countries. In any case, these costs do not imply a transfer of resources to TOSSD-eligible countries, and shall therefore not be included in Pillar I of TOSSD. This reasoning is in line with the view that stakeholders from Costa Rica and Nigeria expressed during their respective TOSSD pilot studies, conducted in 2018. They considered that the inclusion of administrative costs of local country offices of provider countries or institutions in Pillar I could distort data on development finance provided to their countries (they cannot check or monitor those expenses or their direct benefit to the country).

6. At the same time, administrative costs are indispensable for conducting development co-operation programmes and other activities that promote sustainable development. In this regard, it makes sense to acknowledge them in TOSSD. They could be considered as enablers of sustainable development and be included in Pillar II.

7. At the sixth TOSSD Task Force meeting, members agreed in principle with the inclusion of administrative costs in TOSSD, but called for a conservative and prudent approach. (See section III.)

8. For bilateral providers, building on the treatment of administrative costs in ODA (see section I), the bulk of the administrative budget of development co-operation agencies could in principle be included. However, adjustments would be required given that ODA activities do not necessarily qualify as TOSSD and that in some areas TOSSD can be broader than ODA.<sup>2</sup>

9. Multilateral institutions working for sustainable development are also providers of TOSSD. Administrative costs are indispensable for their functioning too (and are generally included in reports on their development co-operation activities); they could be seen as promoting international public goods and enabling sustainable development (multilateralism itself could be considered as an international public good). TOSSD could therefore include the administrative costs of multilateral institutions conducting all or most of their activities for sustainable development of TOSSD-eligible countries<sup>3</sup>.

## III. FOLLOWING A CONSERVATIVE APPROACH WITH REGARD TO ADMINISTRATIVE COSTS?

10. At the sixth meeting of the TOSSD Task Force, members called for a conservative and prudent approach to administrative costs, which suggests that not all elements of administrative costs should be included.

11. In the first place, and since multilateral organisations are considered as providers of TOSSD, the Task Force could discuss whether administrative costs related to countries' contributions to multilateral organisations or managing multilateral co-operation programmes should be taken into account. On the

<sup>2</sup> For example, administrative costs relating to any non-sustainable ODA activities would be excluded while those relating to activities in ODA-graduated TOSSD-eligible countries or to non-concessional loan programmes would be included. Also, TOSSD goes beyond development co-operation (see paragraphs 12 and 14). In practice, pro rata calculations could be used.

<sup>3</sup> Note that the discussion about the link or focus of Pillar II on TOSSD-eligible countries has not yet been concluded. Agreement on this point shall influence the method for calculating the TOSSD-eligible administrative costs e.g. pro-rata, reflecting the share of TOSSD-eligible activities and countries in total expenditures of the institution.



one hand, such expenses could be seen as support to multilateralism and therefore to international public goods; on the other hand there are situations where they can essentially serve to promote providers' foreign policy objectives (e.g. having more of a voice in international organisations) and not be directly linked to sustainable development.

12. Moreover, many ministries and official agencies are partially involved in TOSSD-eligible activities (e.g. ministries of education, environment, interior affairs, trade). Experience from OECD statistics on development co-operation shows that estimating administrative costs for multi-purpose agencies or ministries is challenging. A possibility would therefore be to either exclude such costs from TOSSD or simplify their calculation (e.g. by including only the costs of serving staff).

13. Finally, costs which are less directly linked to the implementation of TOSSD-eligible activities, such as pensions for retired staff or the cost of premises could also be excluded.

14. Given that the calculation of administrative costs with inclusions and exclusions (which will be to some extent arbitrary) can be complex, another approach could be to: i) take as a starting point the total administrative costs of development co-operation agencies and other official entities involved in the delivery of TOSSD activities; and ii) do a pro-rata calculation, reflecting the share of TOSSD-eligible activities and countries in total expenditures of the institution. As administrative costs will be separately identified in Pillar II, their comprehensive reporting could help to increase transparency and the monitoring of this spending.

#### IV. CLASSIFICATION OF ADMINISTRATIVE COSTS IN TOSSD

15. Administrative costs, if included in TOSSD, should be separately identifiable with a TOSSD modality, as agreed by TOSSD Task Force members during the 6<sup>th</sup> meeting.

16. With regard to the sector classification, the OECD-CRS classification includes a specific code for 'administrative costs not included elsewhere' (code 91010); the costs are not allocated by sector. In the ISIC classification, there is no specific code for administrative costs. In the case of multilateral organisations, the most relevant code would seem to be 'activities of extraterritorial organizations and bodies' (code 9900). For countries, a general code of public administration could be used (code 8411 - General public administration activities).

17. Regarding the geographical breakdown, while administrative costs would be included in pillar II, the costs of country or regional offices could be reported against the code of the country or region in which the activities are conducted.

#### Issues for discussion

- Do TOSSD Task Force members agree that administrative costs related to the design and implementation of sustainable development activities should be included in the TOSSD measure?
- Do TOSSD Task Force members agree that administrative costs not included in projects be included in Pillar II?
- What are TOSSD Task Force members' views on concrete suggestions in section III to follow a conservative and prudent approach?