



Follow-up on the implementation of the new Cost Recovery System (CRS) and Preliminary Insights from the Pilot Program

Information as of July 31, 2024

Executive Summary

The adoption of the Cost Recovery System (CRS) is an important advancement in the financial management of the General Secretariat of the Organization of American States (GS/OAS). Its objective is to minimize regular resources (Regular Fund) from subsidizing programs financed with voluntary resources (Specific Funds), all while ensuring long-term sustainability in the implementation of projects. To accomplish this goal, the GS/OAS established the CRS, which includes two types of costs to separate the direct and indirect costs incurred by the GS/OAS when executing Specific Fund projects: Program Support Costs (PSC) and Indirect Cost Recovery (ICR).

To transition from the previous ICR policy to the new CRS policy, the General Secretariat has implemented a pilot program for the CRS, pending the implementation to the upcoming OASCORE. As changes cannot be implemented to the existing financial platform OASES, most processes in the pilot required for CRS are manual.

Following the adoption of the new CRS, Section III.3.a of AG/RES.3011 (LIII-O/23) requested the General Secretariat to conduct an annual analysis of the impact of the new policy and report on the results to the Committee on Administrative and Budgetary Affairs (CAAP). This report provides CAAP the corresponding annual update of the implementation of the new CRS.

This report highlights the financial aspects of the ongoing pilot program, its preliminary results, achievements, and challenges. This report also provides a comparison between the effects of applying the previous policy and the methodology of the new CRS. Additionally, the report incorporates feedback from consultations with donors and OAS project managers/executing entities and identifies areas for improvement.

A list of acronyms used throughout the document are included at the end of this document.

Cost Recovery System Background

The CRS is implemented pursuant to resolution CP/RES. 1204 (2391/22) “Cost Recovery System of the General Secretariat of the Organization of American States for projects financed with Specific Funds”, which was adopted by the Permanent Council at its regular meeting on August 17, 2022, and later ratified by the General Assembly through the AG/RES. 2985 (LII-O/22) on October 6, 2022. Prior to the introduction of the CRS, the GS/OAS uniformly applied ICR at a flat rate of 13% to all Specific Funds contributions based on the total contribution amount. Under the new CRS framework, five

cost centers have been established to group the different services provided by SAF departments. These project support costs (PSC) are included as direct cost to Specific Fund projects requiring these services. At the same time, the GS/OAS also recovers indirect costs from these projects by applying a 7% ICR rate over all direct costs.

This shift to the new CRS methodology presents several advantages, including:

- adherence to best practices by applying ICR based on direct costs as expenses are incurred.
- minimizing cross-subsidization between funds and projects to ensure equitable cost allocation.
- the application of PSC only to projects requiring such services for optimized resource allocation
- transparent resource allocation with PSC recovery directly benefiting service-providing areas.

This transition underscores our commitment to adhere to best practices, aligning cost recovery with project-specific requirements, and improving responsible financial management.

I. Adjustments to Procedures

To effectively incorporate the CRS, the Secretariat for Administration and Finance (SAF), through its Department of Financial Services (SAF/DFS), made various changes to the current procedures, aiming to align those with the new CRS requirements and enhance the system's efficiency, such as:

1. *Careful review of project budgets, ensuring viability and compliance with financial requirements while aligning them with CRS principles for improved project costing:* To improve project budget preparation, and maintain updated and centralized information about the CRS, SAF/DFS created a SharePoint site where technical areas can obtain all the necessary information about the new methodology and budget template, including an online tool that allows estimating the project support cost (PSC) and the indirect cost recovery (ICR). Aiming to centralize all the information related to CRS in one place, the site can be accessed at the following link: [CRS - Home \(sharepoint.com\)](#)
2. *Alignment of financial reporting formats and documentation requirements with the new CRS:* To promote transparency and precise financial tracking, SAF/DFS changed the financial statements template and updated the complementary notes to the financial statements to easily reflect the amount reported related to ICR and PSC.
3. *Inclusion of CRS related modifications in internal documents and procedure manuals:* Aiming to ensure compliance with the CRS and maintain appropriate documentation, internal forms (such as Forms-100 and GMA) have been modified.

II. Enhancements to the Accounts Structure and Development of Tools for Precise Costing Calculation

Accurate costing calculation is paramount in budgeting. Given the limitations of the current OASES system, SAF/DFS developed complementary tools to automate the calculation of PSC and ICR to interact with OASES. This approach improves preparation time and the accuracy of results in a system that can no longer be modified. To date, we have achieved the following:

CRS Excel Macro: This tool, utilizing Visual Basic for Applications (VBA) code and data modeling which generates the necessary calculations for PSC and ICR. The tool also records the supporting information used in the calculation, providing validation of the result and ensuring transparency and auditability.

This tool also integrates the following:

1. Validate transfers of expenditures allowing required manual adjustments.
2. Once the PSC and ICR have been calculated, additional macros are used to record those transactions in OASES.

In addition, enhancements to the costing structure have been made to track and provide accountability with donor's agreements:

1. SAF/DFS has achieved an integration of the cost allocation methods within the accounting framework, ensuring precise assignment of PSC and ICR expenses to specific combinations of projects and awards.
2. New internal controls have been implemented to facilitate reporting and transparency of financial data related to the CRS, such as new terms and conditions in the awards applying this new methodology and the setting up of new General Ledger accounts.

III. Challenges faced at the beginning of the implementation process.

The following are some of the challenges faced during the beginning of the CRS implementation:

Technical matters:

1. Set-up of new accounts to capture CRS charges: The new CRS requires the creation of new account code combinations in OASES. Setting up these accounts for the new methodology was a major challenge. However, after a few months, SAF/DFS managed to identify a solution by running tests, adjusting parameters, and holding internal collaborative meetings. The delay caused by this event affected the timely recording of CRS charges in the pilot projects.
2. Manual records: The introduction of the new CRS methodology increases the number of transactions and modifies the process for recording transactions. It shifts the process from a single transaction (13% of the contribution) per Project/Award combination for the project duration to a new set of up to five transactions (ICR + PSC) per Project/Award combination every month during the project life. For example, if a project has a duration of one year, the new process requires up to 60 records, as compared to the previous process which required only one record. Consequently, there is a notable increase in the volume of manual transactions that must be recorded within the OASES system. To address this challenge, SAF/DFS collaborated closely with the Department of Information Technology Services (DOITS) to streamline and automate this manual process to the greatest extent possible. A

direct solution is being designed in the new ERP; therefore, our current solution is only temporary to allow the testing of the pilot programs.

3. Manual Calculations - (Transfer of Expenditures): Some instances require the transfer of expenditures (TRFs) from one project to another which consequently requires the transfer of ICR and CRS charges related to that portion of the expenditure transferred. This means that additional calculations and transfers are required when these situations arise. The internal directive has been properly planned ahead of time to minimize TRFs. Notwithstanding, due to the dynamic nature of some agreements, TRFs will still be required, confirming the complexity and time-consuming of the new procedure. In these cases, all PSC and ICR adjustments related to a TRF are manually calculated.

Other matters:

1. Two implementations at the same time: The new CRS policy and the OASCORE are being implemented at the same time. Although this provides adequate feedback on the CRS requirements for the new ERP, the reality is that the priority the OASCORE demands has also contributed to some delays in the implementation of solutions needed for the current OASES system. In essence, we are implementing and developing the CRS in two independent systems; as a result, whenever a change is required in OASES, we must ensure that it is also functional in OASCORE.

IV. Use of authorized resources

To implement the new CRS, the General Secretariat received authorization to utilize the remaining balance of USD 113,000 from the original funds earmarked under CP/RES 1176 (2325/21). As of the date of this document, USD 12,744 has already been executed and USD 15,400 obligated to hire a full-time remote consultant tasked with implementing, monitoring the management, reporting, and provision of support of the new policy. These funds will continue to be executed throughout the years 2024 and 2025 to ensure the accurate integration of the CRS policy into the OASCORE system.

Additionally, SAF/DFS executed USD 8,500 from DFS resources to contract a remote consultant for the purpose of automating the CRS within the existing OASES system, within the previously explained limitations.

	Fund 611	Regular Fund 2022	Fund ICR 610
Authorized	137,000.00	8,500.00	6,900.00
Pre-approval of CRS			
Preparation of CRS policy documents	(24,000.00)		
Sub total	113,000.00	8,500.00	6,900.00
Post-approval of CRS			
VBA programming for CRS implementation under OASES	-	8,500.00	-
Monitoring CRS management and reporting	(12,744.17)	-	-
Cash Available	100,255.83	-	6,900.00
Obligations	(15,400)	-	(6,900.00)
Fund Balance	84,855.83	-	-

V. Insights from the Ongoing Pilot Program

Since the approval of the new CRS by the Permanent Council through resolution CP/RES. 1204 (2391/22), and its ratification by the General Assembly through the AG/RES. 2985 (LII-O/22) on October 6, 2022, the GS/OAS, through SAF/DFS, has taken multiple steps to implement the CRS, one of the most relevant approaches used for the implementation of this new methodology is a pilot program initiated in the first quarter of 2023.

I. The Pilot Program

The new CRS brings to the GS/OAS, from the budget proposal to the proper recording of costs, several challenges. These are mostly generated by the current OASES system that limits the automation of processes and relies on many manual processes, considering that the SAF/DFS established a pilot program for a smooth transition to this new methodology. This pilot program aims to test the new CRS methodology to improve and address situations or challenges prior to its full implementation. Therefore, SAF/DFS has proceeded to apply this new methodology primarily to selected projects that met the following criteria:

1. Contributions above USD 150,000.
2. Period of execution exceeding 1 year.
3. From a donor that historically does not allow a 13% flat rate.

It is important to note that while some projects from the implementation of the pilot program to date may have complied with these requirements, not all eligible projects have been included. A key reason for this is the shift from the former ICR policy which involved applying a fixed 13% rate recorded as a one-time transaction when the contribution was received. Under the new CRS methodology, however, charges are based on the actual execution of the project, requiring an average of 60 transactions to be registered over the project's lifecycle. In the current OASES system, these entries are recorded manually, making the process labor-intensive. This is why the pilot

program has been limited to only a few donor agreements. Once the new ERP is operational, these entries will be registered semi-automatically.

II. Pilot Program Projects

Currently, the pilot program is composed of projects financed by contributions coming from the European Union, the United Nations, USAID, Canada, and Japan, donors that historically have indicated that their internal policies prevent them from adhering to our previous flat rate of 13% for ICR. As of the date of this report, twelve projects are part of the pilot program, amounting to approximately USD 38 million:

#	Award	Project	Donor Name	Donor	Project Name in Agreement	Start Date	End Date	Years	Execution start date	Contrib. USD	Contrib. Oth. Currency	Status
1	EEC23/01	SSD1704	The European Union	The European Union, represented by the European Commission	Support to confidence building and mediation in the Adjacency Zone of Belize and Guatemala	1-Jan-23	1-Jul-24	3.0	Jan-23	1,631,717.00	1,500,000.00	Active
2	EEC23/02	CDH2301	The European Union	The European Union, represented by the European Commission	Increasing the protection and defense of human rights in the Americas	1-Jan-23	31-Dec-25	0.8	May-23	1,845,550.00	1,750,000.00	Active
3	UNHCR23/01	DSI-MIRPS/UNHCR	United Nations	The Office of the United Nations High Commissioner for Refugees ("UNHCR")	Strengthening the OAS/DSI's work on Refugees and Forced Displacement	1-Mar-23	31-Dec-23	1.0	May-23	159,593.28	N/A	Expired
4	USAID18/02	DFS1803; SSD1805-COGSMS; SSD1805-SEDI	USA	The U.S. Agency for International Development (USAID)	Small grant facility activity	16-Apr-23	15-Apr-24	2.0	Apr-23	1,000,000.00	N/A	Expired
5	UNODC23/01	SAR2101	United Nations	The United Nations, represented by its Office on Drugs and Crime (UNODC)	Strengthening the Haitian capacity to investigate, prosecute and adjudicate cases of corruption and economic crimes, money laundering and associated predicate offenses and improving information sharing with international investigators on transnational organized crime.	29-Aug-23	6-Aug-25	6.4		1,286,125.00	N/A	Active
6	CADFATD23/03	CDH2304	Canada	The Department of Foreign Affairs, Trade and Development (DFATD)	Increasing Prevention and Defense of Human Rights Of Women And Girls in Latin America and The Caribbean	25-Sep-23	31-Dec-29	2.6		3,680,996.02	5,000,000.00	Active
7	CADFATD23/04	DSI-HAITI	Canada	Department of Foreign Affairs, Trade and Development (DFATD)	Increasing Social Cohesion and Countering Gang Violence in Haiti	24-Nov-23	30-Jun-26	2.5		10,829,972.85	14,715,583.00	Active
8	USAID23/01_A	SHA2001	USA	The U.S. Agency for International Development (USAID)	Haiti National Identification Card Program	15-Dec-23	4-Jun-26	3.0		3,087,500.00	N/A	Active
9	EEC24/02	SMS2001	The European Union	The European Union	Support of strengthening biological safety and security in Latin America in line with the implementation of United Nations Security Council Resolution 1540 (2004) on non-proliferation of weapons of mass destruction and their means of delivery	10-Jul-24	10-Jul-27	3.0		2,934,115.57	2,686,427.00	Active
10	JAPAN24/01	SHA2001	Japan	Japan	Supporting the Office of National Identification in Haiti in the reRegistration, issuing and distribution of the new national Identification Card	22-Feb-24	22-Feb-25	3.12		8,236,077.00	N/A	Active
11	EEC24/01	SSD2402B	The European Union	The European Union	Support to confidence building and mediation in the Adjacency Zone of Belize and Guatemala	3-Jun-24	30-Jun-27	3.00		3,214,499.64	3,000,000.00	Active
12	UNHCHR24/02	DSI-MIRPS/UNHCR	United Nations	The Office of the United Nations High Commissioner for Refugees ("UNHCR")	Strengthening the OAS/DSI's Unit on Refugees and Forced Displacement: Consolidating the MIRPS agenda and the response to other situations of forced displacement in the Americas"	1-Mar-24	31-Dec-24	0.85		133,046.00	N/A	Active

Total (in USD)

38,039,192.36

* These are estimates in USD of the agreement, as the full amount is not yet received.

III. Representation in the pilot program by Secretariat

The Secretariat for Administration and Finance through its Department of Financial Services (DFS) has been leading this transition and the implementation of the new CRS. Since the beginning of the pilot program, DFS has made itself available to the various areas of the organization to provide

support to adapt their projects to include this new methodology, therefore it is important to include the distribution of projects by secretariats of the OAS participating in the pilot program:

OAS Secretariat	# of Projects
Secretariat for Access to Rights and Equity	4
Inter-American Commission on Human Rights	2
Secretariat for Strengthening of Democracy	2
Secretariat for Multidimensional Security	1
Executive Secretariat for Integral Development	1
Secretariat for Hemispheric Affairs	2
Grand Total	12

Currently, the Secretariat for Access to Rights and Equity represents 33.3% of the projects participating in the pilot. It is important to mention that each of the four projects belonging to this secretariat are financed by a different donor, which has contributed significantly to conveying the new methodology between our external contributors.

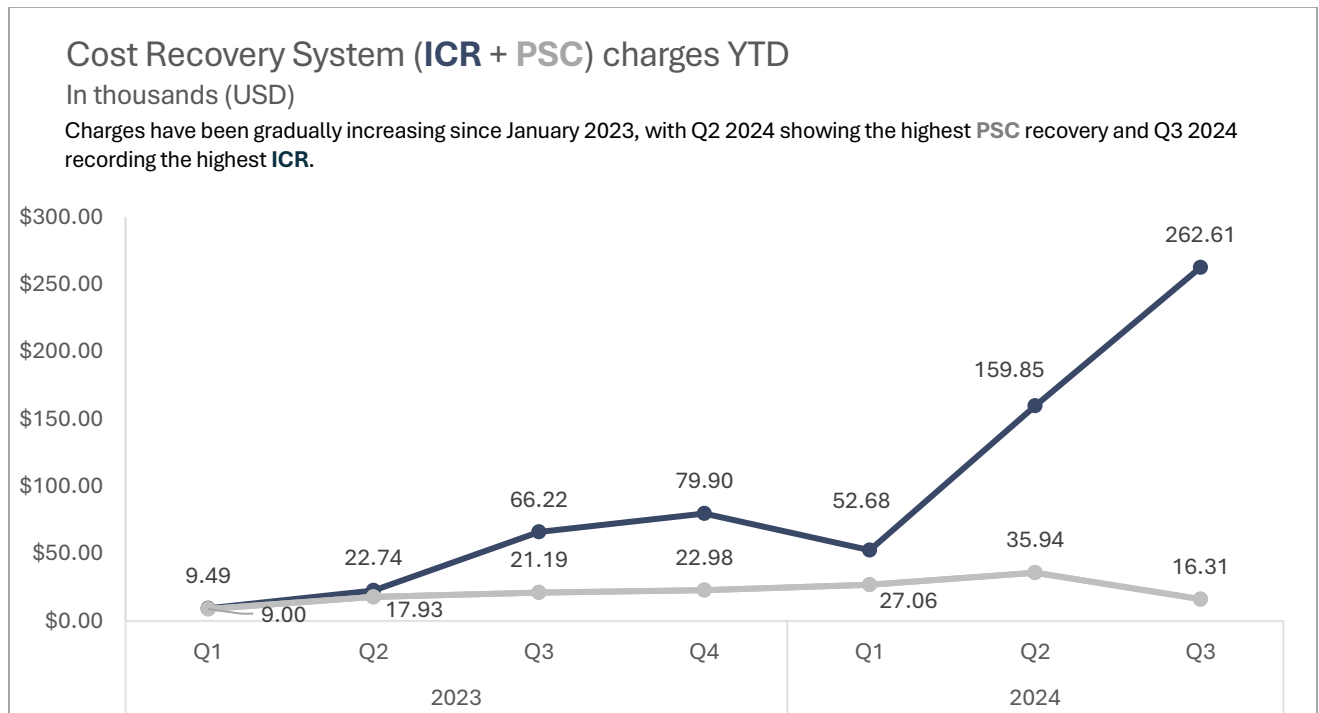
IV. Financial performance of the pilot program

In terms of financial aspects, since the beginning of the pilot program, the organization has recovered through the application of the new CRS methodology USD 803,901 as of July 31, 2024, distributed as follows:

Year	ICR	PSC
2023	178,351	71,098
2024	475,140	79,311
Grand Total	653,492	150,409

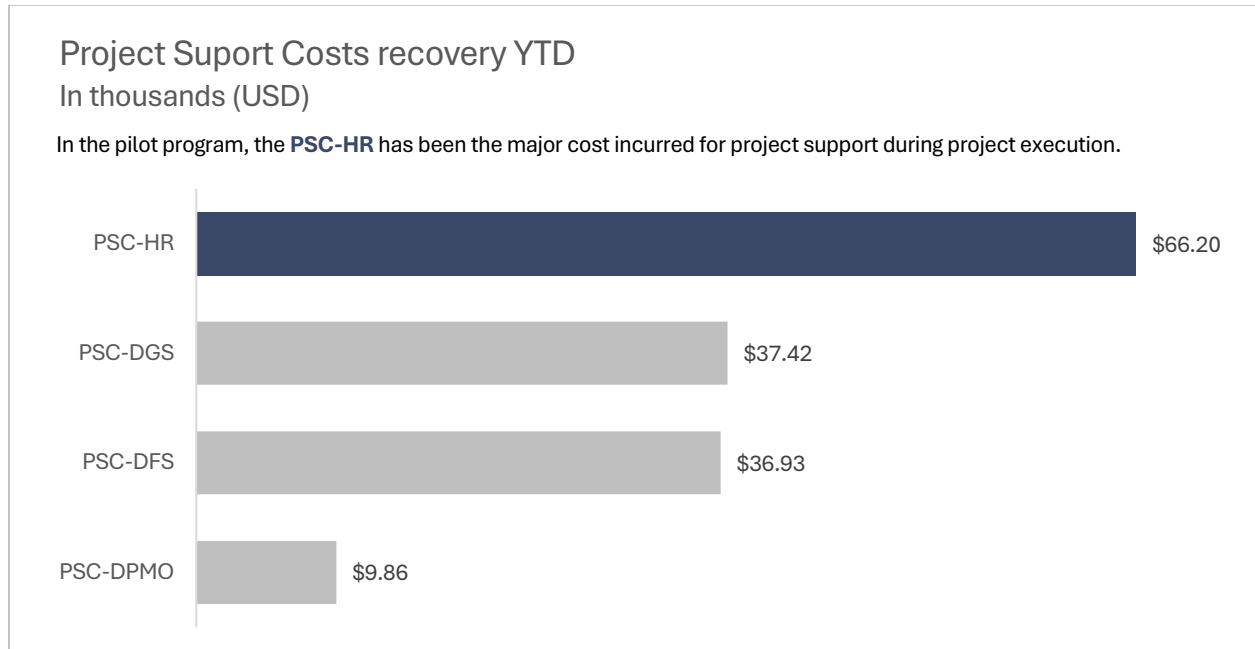
The table above shows the distribution of CRS between ICR representing 70% and PSC 30% of the total collected. In relation to the PSC these costs are charged once the project receives the services provided by the Cost Centers (POs, payments, recruitment, workspace, etc.), while the ICR is a 7% fix rate charged based on the execution of the project (direct cost + PSC).

V. CRS collections through time



The chart above shows that since the beginning of the pilot program the ICR collections have been always greater than the ones collected for the PSC. This is due to the way these two elements are charged as explained before. However, ICR collections have followed consistent growth through the year, reaching USD 79.90 thousand by Q4 2023. The most significant rise occurred in 2024, where ICR collections surged to USD 159.85 thousand in Q2 and reached a peak of USD 262.61 thousand in Q3, marking a sharp incline in recovery performance, the chart also reflects a gradual increase for both the ICR and PSC collections, this is mainly due to the increasing number of projects added to the pilot program and the active execution of those. The PSC collections remained relatively stable compared to ICR, with slight variations. Starting at USD 9.49 thousand in Q1 2023, it saw minimal increases throughout 2023, peaking at USD 22.98 thousand in Q4. In 2024, PSC collections showed a slight decrease in Q1 at USD 27.06 thousand but dropped to USD 16.31 thousand by Q3, this was generated by considerable disbursements made to external partners (e.g. PADF) involved in the project.

VI. PSC Distribution by cost center



As of the current reporting period, the Project Support Costs (PSC) recovered a total of USD 150,409. The Human Resources (PSC-HR) cost center represents the largest share, recovering USD 66.20 thousand, or 44% of the total PSC recovery. This significant percentage underscores the critical role of human resources in supporting project execution under the pilot program.

Other Cost Centers:

- The Department of General Services (PSC-DGS) recovered USD 37.42 thousand, or 24.9% of the total PSC.

- The Department of Financial Services (PSC-DFS) recovered USD 36.93 thousand, or 24.6% of total PSC.

- The Department of Procurement and Management Oversight (PSC-DPMO) recovered USD 9.86 thousand, or 6.5% of total PSC

Regarding the cost centers, when the new policy was approved it also included the services provided by the PSC-DOITS; however, for this implementation, this department decided to address the services they provide directly with the areas. Those collections are not recorded through the PSC and is out of the scope of this report.

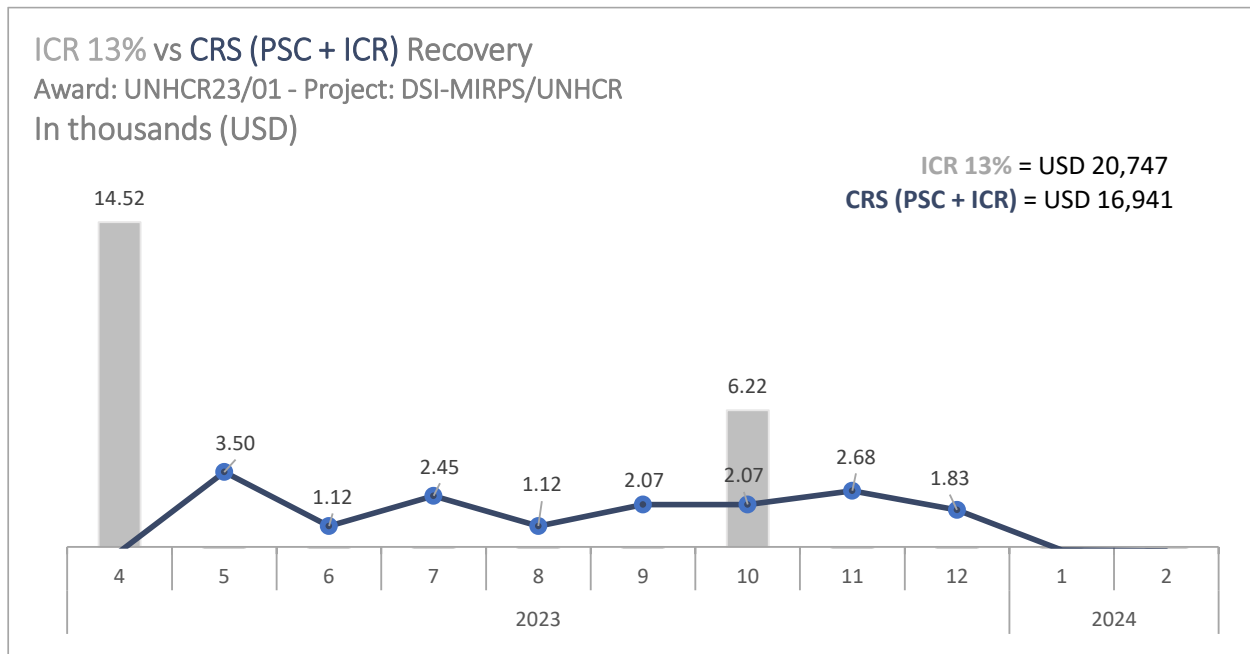
VII. Comparison between the prior policy and the new CRS methodology

The former ICR policy consisted of the application of a flat 13% rate, calculated and applied to the total contribution amount, at the time of receipt of the contribution. The new CRS policy applies the ICR and PSC monthly, based on direct costs, during the life of the project.

There is a significant difference between the methodologies, where with the previous policy, the organization recovered faster the resources to cover the indirect and direct cost incurred by the projects. With the new CRS policy, these resources are collected throughout the life of the projects and based on their executions levels.

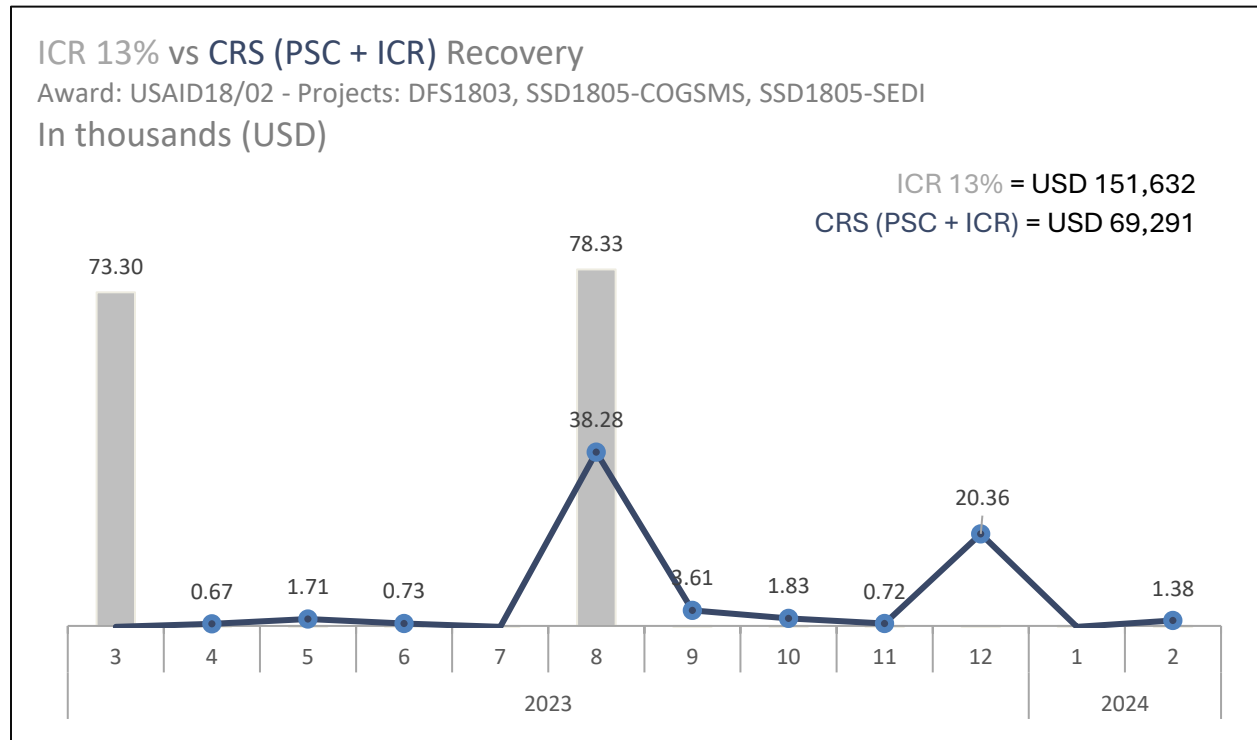
To begin the analysis by comparing the results of both policies, we show their application to a couple of pilot projects that have already completed their execution. For these purposes, the result of the following agreements is shown: UNHCR23/01 and USAID18/02:

Example 1



The UNHCR23/01 agreement is a contribution from the Office of the United Nations High Commissioner for Refugees ("UNHCR") to finance the project entitled Strengthening the work of the OAS/DSI on Refugees and Forced Displacement, for a total of USD 159,593 that was received in two disbursements: one disbursement in April and the other in October 2023. For the purposes of this analysis, under the previous policy, 13% of ICR would have been applied and collected for each disbursement received in the corresponding month. Therefore, under the application of the previous policy, USD 20,747 would have been recovered (see the sum of the gray bars). Under the new SRC policy, the total amount collected was USD 16,941 (see the sum of the blue line), representing a difference of USD 3,806 from the previous policy.

Example 2



The agreement USAID18/02 is a Letter of Credit contribution from the United States Agency for International Development (USAID) to finance the project titled Small Grants Facility (SGF), for a total of USD 7,176,000. This is the first letter of credit under the new CRS methodology for which the donor requested that the last contribution of USD 1,166,403 received be considered under the new policy. For this project, 80% of the budget was allocated to the Pan American Development Foundation (PADF), which is responsible for executing the project in Haiti, while 20% of the budget was executed by the GS/OAS.

Under the previous policy, the GS/OAS would have received the entire contribution and charged 13% ICR on the full amount of USD 1,166,403. Under the new policy, the GS/OAS applied a 7% ICR on the total executed (direct costs), notwithstanding given that 80% of the funds were transferred to PADF and the ICR charged on the remaining funds executed (20%) by the GS/OAS resulted lower when compared to the previous 13% ICR policy.

For the reasons explained above, under the application of the previous policy, the GS/OAS would have recovered USD 151,632 (see the sum of the gray bars). Under the new CRS policy, the total amount collected was USD 69,291 (see the sum of the blue line), representing a difference of USD 82,341 from the previous policy.

VIII. Results so far achieved and financial impact on projects:

The implementation of the CRS has led to several notable achievements:

- Enhanced transparency in cost allocation.
- Improved accuracy in tracking project-specific expenses.
- Better alignment with best financial practices by charging ICR based on direct costs incurred.
- The financial impacts of the new CRS have been notable, particularly for areas with donor agreements that do not accept the 13% ICR over the contribution. In addition to the achievements mentioned above, the technical areas spend less time now negotiating on ways to comply with the previous 13% ICR requirement.

IX. Feedback from Consultations

Consultations with donors and OAS project managers/executing entities have provided valuable insights:

- Donors appreciate the transparency and detailed cost breakdowns, which enhance trust and encourage continued support.
- Some concerns were raised about the complexity of the new policy and the need for clearer guidelines and training for project managers.
- Recommendations include simplifying the reporting process and providing more support for project managers during the transition period.

X. Areas for Improvement

Based on the analysis and consultations, several areas for improvement have been identified:

- Streamlining the cost recovery process to reduce administrative burden on project managers.
- Enhancing communication and training efforts to ensure all stakeholders understand the new CRS framework.
- Develop a historic database of different types of executing projects to quickly identify similar prior activities and accurately budget their program support costs based on similar types of project scenarios.
- Regularly reviewing and updating the CRS policy to address emerging challenges and incorporate best practices.

XI. Conclusion

The implementation of the new Cost Recovery System (CRS) marks a significant stride toward enhanced financial transparency, accountability, and adherence to best practices within the Organization of American States. By aligning cost recovery methods with project-specific requirements and directly linking indirect cost recovery to incurred expenses, the CRS minimizes cross-subsidization and promotes equitable allocation of resources across funds and initiatives.

While the transition to the CRS has presented challenges, particularly in terms of process complexities and the need for comprehensive training, the long-term benefits for both the organization and its donors are evident. Improved accuracy in tracking project expenses, reduced subsidization of specific funds by the Regular Fund, and greater clarity in financial reporting have already been realized through the pilot program.

Moving forward, continuous efforts are crucial to further streamline the CRS processes, enhance communication and training for all stakeholders, and maintain open dialogue with donors to address emerging concerns. Specific areas for improvement include:

1. Develop a historic database of projects that have finalized execution to identify similar activities that would help estimating the program support costs in new projects.
2. Developing comprehensive training programs and clear guidelines to ensure consistent understanding and application of the CRS framework across all executing entities.

Additionally, the successful integration of the CRS into the upcoming OASCORE system is paramount to ensure seamless automation, efficient data management, and long-term sustainability of the new cost recovery methodology.

As the Organization of American States continues to prioritize responsible financial management and stewardship of resources, the new Cost Recovery System represents a pivotal step in upholding these principles. With ongoing commitment from Member States, collaborative efforts with donors, and dedicated support for executing entities, the CRS can be further refined and optimized, ensuring sustainable project funding, and fostering trust in the organization's financial practices.

VI. List of Acronyms

CRS – Cost Recovery System

DFS – Department of Financial Services

DOITS – Department of Information and Technology Services

ERP – Enterprise Resource Planning

Fund 610 – Fund for Indirect Cost Recovery

Fund 611 – Fund to administer projects approved by the Reserve Sub-fund of the Fund for Indirect Cost Recovery

GS/OAS – General Secretariat of the Organization of American States

ICR – Indirect Cost Recovery

OASCORE – Upcoming new accounting system Microsoft Dynamics-based

OASES – Current accounting system Oracle -based.

PSC – Project Support Costs

SAF – Secretariat for Administration and Finance

TRF - Transfer of Expenditures

VBA – Visual Basic for Applications