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AGENCY SUPPORT COSTS

Note by the Administrator

Attached is the information submitted by the International Labour Organisation (ILO), Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO), the World Bank, the International Civil Aviation Organization (ICAO), the Universal Postal Union (UPU), the International Telecommunications Union (ITU), the World Meteorological Organization (WMO), the World Intellectual Property Organization (WIPO), the International Fund for Agricultural Development (IFAD), the World Tourism Organization (WTO), the Inter-American Development Bank (IADB), and the World Food Programme (WFP) in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979, (DP/WGOC/27, paragraphs 3 and 4).

The information on the possible impact the modified formulae on the level of Agency support costs is based on broad assumptions provided by the Administrator. These were:

1. A 14 per cent annual growth in IPF programme resources and expenditures plus a constant amount for programme reserve, SIS and LDC expenditures, excluding cost sharing;
2. A percentage breakdown by Agency of annual project expenditure using the same breakdown as in 1977 and as reported to the General Assembly in document A/33/5/Add.1 (UNDP Financial Report);
3. Flexibility provisions of the same magnitude as in 1977 until the Agency's programme delivery reaches \$15 million;
4. Special category projects are those consisting of 75 per cent or more of equipment and/or subcontracts. The percentage for this category of projects was derived from the percentage value of

approved project budgets for 1977 falling into this category as compared with the total value of project budgets approved for 1977. The dollar amount of special category projects was subtracted from total project expenditures prior to calculating the support cost reimbursement using the new rates; the 7 per cent rate was separately applied to the special category value and the two figures were added to obtain the over-all annual reimbursement for each Agency.

The information submitted by the other organizations will be issued as addenda to this document.

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Information submitted by the International Labour Organisation in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

In the table of projected delivery we have also used the same assumptions as FAO (i.e. 75 per cent implementation plus carry forward of unimplemented provision from previous year).

You will see that, contrary to our earlier indications which did not rest on the same assumptions, an impact on ILO support costs does become significant during the third IPF cycle. However, if the formula were to incorporate built-in adjustments allowing for inflation - for example at 8 per cent per annum, the impact on the ILO would be roughly halved.

As you know, the main factor which adversely affects ILO's ability to deliver effectively and at the level which the programme demands is the heavy loss in the purchasing power of support cost receipts in Geneva, where our work is concentrated.

If the dollar-Swiss franc exchange rate factor continues to have the same effect as at present, our capacity to deliver will be more seriously affected by this (except to the extent that measures are taken to remedy it) than by the application of either of the proposed new formulae.

As regards the reference in the Working Group's decision to the question of cost reduction and resulting savings, it is clear that, even after all possible measures of economy and streamlining, our costs on a minimum basis will, at all foreseeable levels of programme in the next few years, still be well above 14 per cent.

Paragraph 3C in operative part II of the draft decision refers to a periodical or annual review of the results of such arrangements as may be proposed. The view which has always been held by the ILO is that, as the determination of reimbursement for support costs is fundamentally a policy decision as to the sharing of such costs between regular budgets and extra-budgetary funds, no productive purpose is served by frequent reviews of the basis on which such reimbursement is calculated. Such reviews cost substantial time and money, which necessarily cuts into the resources available for project execution and support: they should therefore be relatively infrequent, e.g. at ten-year intervals.

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Possible effect on ILO of new formulae for computation of support costs by UNDP
(in thousands of US \$)

<u>Year</u>	<u>Equipment/ Contracts</u>	<u>Other Projects</u>	<u>Total Delivery</u>	<u>Support at 14%</u>	<u>Formula I*</u>		<u>Formula II**</u>	
					<u>Support</u>	<u>Loss</u>	<u>Support</u>	<u>Loss</u>
1977 (Actuals)	120	25,671	25,791	3,610	3,602	8	3,600	10
1978 (Actuals)	2,700	35,212	37,912	5,308	5,119	189	5,065	243
1979 (Estimate)	3,418	44,582	48,000	6,720	6,480	240	6,412	308
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Third IPF Cycle								
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1982	4,115	54,385	58,500***	8,190	7,880	310	7,820	370
1983	4,650	61,550	66,200	9,268	8,885	383	8,850	418
1984	5,275	69,725	75,000	10,500	10,032	468	10,026	474
1985	5,985	79,115	85,100	11,914	11,329	585	11,355	559
1986	6,800	90,000	96,800	13,552	12,801	751	12,865	687
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Total	26,825	354,775	381,600	53,424	50,927	2,497	50,916	2,508

Formula I

- * (1) 7 per cent on projects where procurement and contracts represent 70/75 per cent or more of the total.
- (2) 14 per cent up to \$50 million per year, exclusive of project expenditure under (1)
13.5 per cent between \$50 million and \$75 million.
13.0 per cent between \$75 million and \$100 million.
12.0 per cent beyond \$100 million.

Formula II

- ** (1) 5 per cent on projects where procurement and contracts represent 70/75 per cent or more of the total.
- (2) 14 per cent up to \$75 million per year, exclusive of project expenditure under (1)
13.5 per cent between \$75 million and \$100 million
13.0 per cent between \$100 million and \$125 million
12.0 per cent beyond \$125 million.

*** If actual delivery in 1978 and current estimates of delivery in 1979 were used as a basis for projections into the third IPF cycle, ILO delivery would increase by about 8 per cent, and the resulting loss by more than 10 per cent.

IMPACT ON NON-UNDP EXTRABUDGETARY SUPPORT COSTS-THIRD CYCLE-NET LOSS

Equipment/Contracts: Formula I - \$170,000 Formula II - \$219,000
Economy of Scale - n.a. as programme not expected to reach \$50 million a year.

Projected ILO Delivery on UNDP Programmes

(\$ 000)

Years	Total UNDP Programme	ILO Share*	ILO Delivery
<u>Second IPF Cycle</u>			
1979	629,750	49,120	36,840
1980	660,474	51,520 <u>12,280**</u>	
		63,800	47,850
1981	693,964	54,130 <u>15,950**</u>	
		70,080	52,560
<u>Third IPF Cycle</u>			
1982	776,200	60,500 <u>17,500**</u>	
		78,000	58,500
1983	880,500	68,700 <u>19,500**</u>	
		88,200	66,200
1984	1,000,000	78,000 <u>22,000**</u>	
		100,000	75,000
1985	1,135,100	88,500 <u>25,000**</u>	
		113,500	85,100
1986	1,289,700	100,600 <u>28,400**</u>	
		129,000	96,800
Total Third IPF Cycle	5,081,500		381,600

* ILO share 7.8 per cent of total programme on basis 1977 experience.

** Undelivered portion from prior year.

Information submitted by the Food and Agriculture Organization of the United Nations in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

Since no other guidance was provided as regards Government execution, we have included any element for Agency procurement/ contracts within Government Execution under the separate calculation for section (iii) of the formula; for the rest of Agency participation in Government-executed projects we have assumed that we would be reimbursed 14 per cent on that part actually executed. We have, however, added this to the total delivery to which the calculation for economies of scale applies.

In our case, there appears to be no substantial difference between the total effects of the two formulae. As you will see, however, the impact on FAO's reimbursement would be very substantial in each of the two instances and this is one of the main reasons which justify the strong reservations we have against any change in the present rate of reimbursement. Under the first formula, the calculated reduction of \$600,000 in 1977 rises to \$1,300,000 in 1979 and escalates to \$6.5 million by 1986.

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Possible effect of the new formulae for the computation of support costs proposed by UNDP

(In thousands of US \$)

Year	Equipment/ Contracts	Other Projects	Total Delivery	Support at 14%	Formula I*		Formula II**	
					Support	Loss	Support	Loss
1977	5,480	82,881	88,361	12.376	11,782	594	11,838	538
1978	7,600	103,800	111,400	15.596	14,628	968	14,773	823
1979	8,666	116,934	125,600	17.584	16,263	1,321	16,509	1,075

Third IPF Cycle								
1982	15,876	183,824	199,700	27.958	24,795	3,163	24,978	2,980
1983	18,725	206,875	225,600	31.584	27,761	3,823	27,886	3,698
1984	22,135	233,765	255,900	35.826	31,225	4,601	31,283	4,543
1985	26,136	264,264	290,400	40.656	35,167	5,489	35,144	5,512
1986	30,846	299,054	329,900	46.186	39,670	6,516	39,553	6,633
Total	113,718	1,187,782	1,301,500	182.210	158,618	23,592	158,844	23,366

Formula I

* (1) 7% on projects where procurement and contracts represent 70/75% or more of the total.

(2) 14% up to \$50m per year, exclusive of project expenditure under (1)

13.5% between \$50m and \$75m

13.0% between \$75m and \$100m

12.0% beyond \$100m.

Formula II

** (1) 5% on projects where procurement and contracts represent 70/75% or more of the total.

(2) 14% up to 75% per year, exclusive of project expenditure under (1)

13.5% between \$75m and \$100m

13.0% between \$100m and \$125m

12.0% beyond \$125m.

Projected FAO Delivery on UNDP Programme

(\$ 000)

<u>Years</u>	<u>UNDP IPF Ceiling</u> (1)	<u>Total UNDP Programme</u> (2)	<u>FAO Share</u> (3)	(4)	<u>FAO Delivery</u> (5)
Second IPF Cycle					
1979	547,609	629,750	167,513	75%	125,600
1980	574,326	660,474	175,686 <u>42,513</u> *		
			218,199	75%	163,649
1981	603,447	693,964	184,594 <u>54,550</u> *		
			239,144	75%	179,358
Third IPF Cycle					
1982		776,200	206,500 <u>59,800</u> *		
			266,300	75%	199,700
1983		880,500	234,200 <u>66,600</u> *		
			300,800	75%	225,600
1984		1,000,000	266,000 <u>75,200</u> *		
			341,200	75%	255,900
1985		1,135,100	301,900 <u>85,300</u> *		
			387,200	75%	290,400
1986		1,289,700	343,100 <u>96,700</u> *		
			439,800	75%	329,900
Total 3rd IPF Cycle	4,927,500	5,081,500			1,301,500

(1) IPF ceilings as per letter Brown/Yriart dated 15 December 1978.

(2) Second IPF Cycle: 15% increase over (1)

Third IPF Cycle: annual ceilings as per cable Vaidyanathan/West of 26 February 1979.

(3) FAO share 26.6% of (2) on basis 1977 experience.

* carry forward of unimplemented budgetary provision from previous year.

(4) Assumed % delivery of approved budgets.

(5) Projected FAO delivery.

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Information submitted by the United Nations Educational, Scientific and Cultural Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

I am pleased to transmit, attached, the information requested by the intergovernmental Working Group on Support Costs in the decision reached at its meeting last January. We have taken into account the "basic assumptions" - except that (a) we assumed that the Unesco share of overall UNDP deliveries would stabilize at 8 per cent; and (b) we did not find it possible to calculate the four alternative formulae for reimbursement where equipment/subcontracting projects are concerned. Instead, we chose the formula whereby 7 per cent would be reimbursed whenever the equipment/subcontracting components represented 70 per cent or more of the project budget.

Our estimates of the impact of the modified reimbursement formulae have followed the WGSC's request that impact be shown on "support costs financed from different sources"; we have taken this to mean that the modified formulae would be applied to the sum of all deliveries, whatever the source of funding. However, Table 7, attached, also shows the impact that "economies of scale" would have if applied only to UNDP projects. It should be noted that the attached data include only the major extra-budgetary programmes administered by Unesco (and thus cover slightly less than 90 per cent of our total technical co-operation programme).

I should also underline the fact that Unesco does not have a permanent cost-measurement system, nor does our accounting system permit an easy isolation of actual support costs. The figures we are submitting are, therefore, estimates based upon experience, as well as on the one-time cost measurement exercise we conducted in 1976.

Finally, I would like to call special attention to our general conclusion concerning the impact of the proposed formulae. If "economies of scale" were applied to all sources of funding aggregated, and were to start with annual expenditures in excess of \$50 million, the combination of that reduction and the "component-mix" reduction would leave Unesco with \$533,000 less support-cost reimbursements in 1982, and \$1,615,000 less in 1986, than would have been forthcoming under the current reimbursement system. If the same calculation is made on the assumption that "economies of scale" would apply separately to each source of funding, Unesco would receive \$344,000 less in 1982 and \$841,000 less in 1986 from UNDP (deliveries under no other source would attain \$50 million annually). Since we do not anticipate that the ratio of actual support costs (currently 21 per cent) can be significantly trimmed in the future years, we see no alternative for financing these support-cost "losses" other than through their absorption by our assessed Regular Budget. Under the second hypothesis mentioned above ("economies of scale" applied only to UNDP-funded projects), this additional financial burden would represent an 8 to 11 per cent increase in the sum of support costs to be financed from our Regular Budget during 1982-1986.

One further remark concerns the administrative consequences of applying the modified formulae: the proposed changes are obviously more complex than is the current flat-rate system; the problem of separating projects consisting of 70 per cent equipment/subcontracting, for example, and of moving projects in or out of this category according to the whims of mid-term project-revision, etc., will not be easy to resolve and will involve more work - and consequently - increased staff costs.

UNESCO : Data requested by the intergovernmental Working Group on Support Costs (N.B. - See explanatory notes in letter-of-transmittal)

- 1) Estimated actual cost of supporting operational activities in 1977-79, by major source-of-funds ('000 \$) :

	1977	1978	1979	TOTAL
UNDP	6,190	6,980	7,980	21,150
UNFPA	525	720	815	2,060
Funds-in-Trust	1,995	2,310	3,360	7,665
World Bank	667	830	945	2,442
<u>Total</u>	9,377	10,840	13,100	33,317

- 2) Estimated actual cost of supporting operational activities in 1982-86, by major source-of-funds ('000 \$) :

	1982	1983	1984	1985	1986	TOTAL
UNDP	13,000	14,800	16,800	19,100	21,650	85,350
UNFPA	980	1,100	1,300	1,450	1,650	6,480
Funds-in-Trust	4,620	5,050	5,550	6,100	6,700	28,020
World Bank	1,250	1,400	1,550	1,700	1,850	7,750
<u>Total</u>	19,850	22,350	25,200	28,350	31,850	127,600

- 3) Aggregate annual project-expenditure in 1977-79, by major source-of-funds ('000 \$) :

	1977	1978	1979	TOTAL
	(actual)	(actual)	(provisional)	
UNDP	29,494	33,233	38,000	100,727
UNFPA	2,492	3,428	3,873	9,793
Funds-in-Trust	9,500	11,000	16,000	36,500
World Bank	3,175	3,950	4,500	11,625
<u>Total</u>	44,661	51,611	62,373	158,645

- 4) Aggregate annual project-expenditure forecast for 1982-86, by major source-of-funds ('000 \$) :

	1982	1983	1984	1985	1986	TOTAL
UNDP	62,100	70,400	80,000	90,800	103,200	406,500
UNFPA	4,700	5,350	6,100	6,950	7,900	31,000
Funds-in-Trust	22,000	24,000	26,500	29,000	32,000	133,500
World Bank	6,000	6,600	7,300	8,000	8,800	36,700
<u>Total</u>	94,800	106,350	119,900	134,750	151,900	607,700

- 5) Aggregate expenditure in 1977-79 for projects consisting of 70 per cent or more of equipment and/or subcontracting components :

	<u>Total expenditure all projects</u> ('000 \$)	Total expenditure of projects consisting of 70 per cent or more of equipment and/or subcontracting components		Equipment plus subcontract components therein	
		('000 \$)	% of (1)	('000 \$)	% of (2)
UNDP	100,727	6,498	6.5	5,332	82.1
UNFPA	9,783	592	6.0	465	78.5
Funds-in-Trust	36,500	8,000	21.9	7,900	98.8
<u>Total</u>	147,020	15,090	10.3	13,697	90.8

- 6) Aggregate expenditure forecast for 1982-86 under projects consisting of 70 per cent or more of equipment/subcontracting components :

	<u>Total expenditure all projects</u> ('000 \$)	Total expenditure of projects consisting of 70 per cent or more of equipment and/or subcontracting components		Equipment plus subcontract components therein	
		('000 \$)	% of (1)	('000 \$)	% of (2)
UNDP	406,500	28,500	7.0	23,000	80.7
UNFPA	31,000	1,900	6.1	1,500	78.9
Funds-in-Trust	133,500	27,000	20.2	24,300	90.0
<u>Total</u>	571,000	57,400	10.0	48,800	85.0

) Impact of applying modified support-cost reimbursement formulae to the 1977-79 and 1982-86 delivery-levels illustrated in Tables 3 to 6 ('000 \$); "impact" is expressed in each column as the difference between reimbursement that would have been received under the 14% flat-rate formula and the lesser amount due under the proposed formula, i.e., a supplementary sum to be financed from the assessed Regular Budget :

	(1) 7% reimbursed where equipment subcontracting are 70% or more	(2) economy-of-scale rates applied as from \$50-million of annual volume	(3) economy-of-scale rates applied as from \$75-million of annual volume	(4) maximum addi- tional burden (1 + 2)	(5) minimum addi- tional burden (1 + 3)
1977	74	---	---	74	74
1978	217	---	---	217	217
1979	163	30	---	193	163
1982	305	228 (39)	50 (0)	533 (344)	355 (305)
1983	346	332 (77)	104 (0)	678 (423)	450 (346)
1984	393	533 (122)	204 (0)	926 (515)	597 (393)
1985	445	801 (217)	338 (46)	1246 (662)	783 (491)
1986	506	1109 (335)	609 (105)	1615 (841)	1115 (611)

Footnotes: Column (1) above, refers only to UNDP-financed projects because equipment-dominated projects funded from other sources are, by and large, already being charged the lesser rate (7 per cent) proposed. In the other columns, the figures in parentheses represent the reduced amounts that would prevail if "economies of scale" applied only to UNDP funded projects.

Conclusions: The above table clearly illustrates that the application of modified reimbursement formulae would have had a relatively minor impact on support-cost financing in the period 1977-79. In the final years (1984-86) of the Third Cycle, however, the combined effect of (a) the reduced rate (7 per cent) for projects consisting of 70 per cent equipment/subcontracting, and (b) the reduced rates for economies-of-scale (beginning at \$50-million annual expenditure-volume) would require significant supplementary funding of support costs from the assessed Regular Budget of Unesco. If economies-of-scale are to be applied to the aggregate annual expenditure from all sources of funding, Unesco would have to absorb an additional \$926,000 in 1984; \$1,246,000 in 1985; \$1,615,000 in 1986. If economies-of-scale are to be applied only by source-of-funds (UNDP would be the only source whose annual expenditure-volume is likely to attain \$50-million), the additional Regular Budget burden would be \$515,000 in 1984; \$662,000 in 1985; \$841,000 in 1986. These latter sums represent an average 10 per cent increase above the support costs that would have had to be absorbed by our Regular Budget had the 14 per cent flat-rate been applied.

Information submitted by the World Health Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

With reference to the invitation to submit information on the estimated impact on the level of the Organization's support cost reimbursements under all extra-budgetary sources of funds if, instead of the current standard rate of 14 per cent of project expenditures, we were to apply a modified formula, including alternatives, as shown in operative part II of the Working Group's draft decision, we provide below the following data:

- (i) Based on the current level of UNDP-financed projects executed by WHO the proposal for economies of scale would not be expected to affect the amount of WHO's support cost reimbursement during the period under consideration
- (ii) Estimated reductions in support cost reimbursements if projects consisting of 75 per cent or more of equipment and/or sub-contract components were to be subject to a reimbursement rate of 7 per cent of total project costs

Source of Funds

<u>Year</u>	<u>UNDP</u> US \$	<u>Other Extra- Budgetary</u> US \$	<u>Total</u> US \$
1977	243,950	640 990	884 940
1978	148 400	866 110	1 014 510
1979	169 190	987 350	1 156 540
1980	192 850	1 176 000	1 368 850
1981	219 870	1 283 170	1 503 040
1982	250 670	1 462 860	1 713 530
1983	285 740	1 667 610	1 953 350
1984	325 710	1 901 060	2 226 770
1985	371 350	2 167 200	2 538 550
1986	423 290	2 470 650	2 893 940

- (iii) Estimated reductions in support cost reimbursements if projects consisting of 70 per cent or more of equipment and/or sub-contract components were to be subject to a reimbursement rate of 5 per cent of total project costs

Source of Funds

<u>Year</u>	<u>UNDP</u> US \$	<u>Other Extra- Budgetary</u> US \$	<u>Total</u> US \$
1977	322 200	836 550	1 158 750
1978	190 800	1 130 310	1 321 110
1979	217 530	1 288 530	1 506 060
1980	247 950	1 468 890	1 716 840
1981	282 690	1 674 630	1 957 320
1982	322 290	1 909 080	2 231 370
1983	367 380	2 176 290	2 543 670
1984	418 770	2 481 030	2 899 800
1985	477 450	2 828 340	3 305 790
1986	544 230	3 224 340	3 768 570

With reference to the invitation to comment on the operative parts of the Working Group's draft decision, we can offer the following:

Operative Paragraphs I.1, I.2 and II.3.C

As previously reported to the Working Group, the World Health Organization has always been and continues to be a highly decentralized organization carrying out its large programme of technical co-operation with governments on a fully integrated basis irrespective of the sources of financing. All support costs relating to this integrated programme are consolidated in the regular budget and are examined by the Executive Board and the World Health Assembly as part of the normal programme budget review process. The total estimated expenditures under the integrated international health programme during the biennium 1978-1979 are in the order of some \$725 million. In addition to the regular (assessed) budget, this integrated programme is financed from some thirty different sources of funds of which UNDP currently accounts for about \$15 million per year or between four and five per cent. Seen in this perspective, it is considered that the Organization's integrated approach to the planning, budgeting and implementation of its activities under all sources of funds (including UNDP) is the most practical, economical and efficient. Moreover, it is in accord with earlier recommendations of the Economic and Social Council and the General Assembly to this effect. It follows that if separate supporting structures had to be established (and budgeted and accounted for individually) to service the Organization's world-wide activities in terms of each source of financing the related cost/benefit ratio would most likely prove to be unacceptable.

As to the specific question of instituting permanent arrangements designed to generate actual support cost data relating to individual technical co-operation activities by source of financing (such as, for example, UNDP) we have serious reservations about the viability and desirability of such an undertaking. It would no doubt require a massive input of resources which, in a context of extreme budgetary restraint and serious financial problems resulting, for example, from international monetary instability, would probably not command a very high priority on the part of the Organization's Member States. Similarly, it is a fair assumption that such an undertaking would be unlikely to generate data that were any more "scientifically accurate" than those resulting from the special cost measurement exercise of 1973, in which WHO participated. Apart from what has already been stated by the Administrative Committee on Co-ordination on the technical feasibility of measuring support costs to the level of detail apparently envisaged, such an approach would be particularly difficult, costly and fraught with errors if applied to fully integrated programme activities which in the case of WHO could involve as many as thirty different sources of financing. The aggregate consolidated costs of the Organization's service and support functions are, of course, budgeted and accounted for with considerable care and are regularly examined by the governing bodies as part of the normal budgetary and financial review process. Up to the present time the Executive Board and the World Health Assembly have been fully satisfied with the methodology adopted for the consolidated presentation in WHO's budget documents and financial reports of these costs. In this connexion it is interesting to note that, as shown in the programme budget for the biennium 1980-1981, the total estimated amount of

the Organization's non-technical service and support costs financed under the regular budget represents about 12 per cent of the total funds administered by WHO. In preceding years the corresponding percentage was somewhat higher. As regards the total estimated amount of technical support costs under the regular budget, this would represent at least the same percentage of the total funds administered by the Organization as that mentioned above for non-technical support costs.

One of the reasons for the decline in the total amount of the Organization's general service and support costs is the continuing efforts to rationalize and modernize its methods of work with a view to improved performance and cost reductions. As previously reported, these efforts gained special momentum when the World Health Assembly in 1976 called upon the Director-General to reorient the working of the Organization so as to ensure that allocations from the regular programme budget towards technical co-operation with and the provision of services to governments reach the level of 60 per cent, in real terms, by 1980. Among the various measures taken to reach the target set by the Health Assembly is the cutting of all avoidable and non-essential expenditures on establishment and administration at headquarters and in the regional offices. This has taken the form, for example, of a phased reduction of 363 posts, mainly at headquarters and the majority in the non-technical service and support sectors. The result of all the measures being taken to reorient the working of the Organization has been substantial annual savings reaching a cumulative total by 1981 of some \$40 million which is being made available exclusively for new or expanded technical co-operation activities. Thus, and with reference to several passages in the Working Group's decision and draft decision, it will be seen that measures to reduce support costs have been and continue to be taken by the Organization and that the resulting savings are being used entirely for increased technical co-operation with and services to governments.

One final point that we should like to make with respect to the utilization of savings in support costs derived from improved work methods and greater efficiency has to do with the financial problems resulting from the decline in the value of the US dollar in relation to certain other currencies including the Swiss franc. When, for example, the Organization received an amount of about \$2 million as UNDP support cost reimbursement for the year 1972, this amount equalled Swiss francs 7 660 000. The same amount of about \$2 million earned for 1978 (based on the average accounting rate of exchange for that year) equals about Swiss francs 3 600 000. To the extent that the related support costs are incurred in Geneva or in a regional office located in a country whose national currency has also appreciated in value in relation to the US dollar, the WHO regular budget has had to cover any part of the resulting loss which could not otherwise be covered by savings.

Operative Paragraph II.B

As regards the various elements of the proposed modified formula for the reimbursement of support costs, including the possible alternatives, we consider many of the observations of the Advisory Committee on Administrative and Budgetary Questions to be particularly important and relevant to the central issue. In this connexion we agree that support costs include three elements: (a) the administrative budget of the funding Agency, (b) the support costs reimbursed to Executing Agencies, and (c) the contributions to such support costs by the regular budgets of the Executing Agencies. As regards the latter, we also agree that it remains a fact

that the assessed budget of the Organization contributes a substantial proportion of the support costs relating to activities financed from extrabudgetary funds. Considering the significant reductions in posts at established offices of the Organization which, as explained above, are taking place during these years, as well as the increasing workload of the remaining support staff, there is not likely to be room for any further significant savings in this area in the foreseeable future. It follows that in the event of a decline in support cost reimbursements relating to extrabudgetary activities the regular (assessed) budget will be required to make up for any financial losses if service and support activities are to be maintained at their current (reduced) levels. A matter of this nature and potential budgetary magnitude will, of course, need to be considered by the Executive Board and World Health Assembly.

When last year we extended our full co-operation to UNDP in the work to develop proposals for a modified formula for the reimbursement of support costs, we were motivated in large measure by the common desire to reach a consensus on the basic issue thereby hopefully putting it to rest for a long time. It was in this spirit that we did not enter specific objections to particular elements of the proposed modified formula that emerged and which was presented to the intergovernmental Working Group on Support Costs last January. While, frankly speaking, we would just as soon have continued the existing reimbursement arrangements based on a standard rate of 14 per cent of project expenditures we would naturally be prepared to submit for consideration by the World Health Assembly a proposed modified formula, on which agreement could be reached initially by the parties currently involved in this process, and which were subsequently endorsed by the Economic and Social Council and the General Assembly. This remains our basic position.

Information submitted by the World Bank in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

Sub-paragraph B (iv) of operative part II of the draft decision of the Governing Council provides that "the present special arrangement providing for a consolidated reduced rate of 11 per cent reimbursement, would continue in respect of IBRD". Assuming that this provision is adopted by the Governing Council, the new formula would have no impact on the World Bank, that is, there would be no change in the basis on which reimbursement of its support-costs is determined.

In view of the fact that the proposed continuation of the current arrangement with the Bank attracted some comment at the IWG meeting, it might be useful to say something more.

Continuation of the special Bank arrangement was, as suggested when the Bank representative at the inter-agency meeting last October stated that the Bank could not accept the provision that for "projects consisting of 75 per cent or more of equipment and/or subcontract components, the reimbursement would be seven per cent of total project costs". He noted that the Bank is the only specialized agency which executes a majority of its UNDP projects by subcontract, and that its experience demonstrated that a seven per cent reimbursement rate on subcontracted projects was insufficient to cover the support costs of these projects: a 10 per cent level of reimbursement was necessary. Since the Bank has had little experience with UNDP projects involving equipment procurement, it has an inadequate basis for determining their support costs. Nevertheless, it is certain that the cost of subcontracting, including supervision and support over the life of the subcontract of the quality essential to assure optimum project results and maximum benefit to the country, is considerably greater than the cost of executing an "equipment-only" project.

This position was forcefully expressed at the October inter-agency meeting. Most agencies supported that position or said that they lacked sufficient experience with subcontracted projects to form a judgment. It is relevant to note that the CCAQ, last September, considered the possibility of applying a rate less than 14 per cent only "where a project budget consisted primarily or entirely of an equipment component" (emphasis added)

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(Co-ordination/R.1307 18 September 1978, para 29). It did not propose a lower than standard rate for subcontracted projects. The UNDP administration, however, was reluctant to consider a separate level of support costs applicable only to subcontracted projects. Since this issue was of concern primarily to the Bank, UNDP staff then proposed the alternative of retaining the existing arrangements with the Bank. In the spirit of compromise, the Bank accepted.

The Bank's position has been dictated by the very substantial dedication of Bank manpower and other resources regularly required in the case of subcontracted projects. This involves, first, the framing of terms of reference, the development of short lists, the preparation of the invitation to prospective subcontractors, the evaluation of the proposals and the negotiation of a contract with the firm selected. After award of the contract, Bank staff monitor the contractor's performance, not only through reports and correspondence but also through periodic supervision missions. Modifications of the contract or changes in key personnel may have to be negotiated to achieve satisfactory results. Draft technical reports are reviewed in detail by Bank staff; these reviews may demonstrate a need for revision/modification (for example, a change of methodology or a new analysis) which must be worked out in consultation with the contractor. These undertakings are additional to the regular financial, administrative and other support activities required in the execution of any UNDP project. In total, support activities may be less extensive than those required for projects involving individually recruited experts but, are nevertheless considerably more than is likely to be required for "equipment-only" projects and, as already noted, the cost of such support averages considerably more than the level of reimbursement proposed for "equipment-only" projects.

The Bank's subcontracting practice differs from that of most other agencies. A substantial number of agencies make little or no use of subcontracting in their Executing Agency role. Those which do employ subcontracting typically only subcontract part of the project and use individually recruited experts as well. Even where all the technical work is subcontracted, other agencies typically appoint a project manager who provides back-up and support. The full cost of the project manager's services is charged to the project. In contrast, the Bank provides supervision, back-up and support, not through an independent project manager, but through its own staff and missions from headquarters. And, as recommended in para. 19 of the JIU report circulated to the IWG (DP/WGOC/26, dated December 21, 1978), the Bank charges the cost of such inputs to "agency support costs", rather than additionally and directly against the project.

One further distinction should be noted. It relates to the comparison sometimes attempted between the Bank's experience and that of UNDP's Office for Projects Execution. As noted in Mr. Olver's report of January 24, 1978, two-thirds of OPE projects are non-technical, involving administrative and/or financial support only. The Bank, however, does not normally act as Executing Agency for projects involving administrative support alone. Direct comparison of Bank and OPE experience is therefore almost impossible. The special situation of OPE is recognized in the draft decision under which OPE's program support costs would be dealt with under an arrangement separate from that which would apply to the Bank.

In summary, the World Bank, which uses subcontracting extensively in executing UNDP projects, has substantial and unique experience with this approach. Its analysis of that experience leads it to the conclusion that the cost of providing the back-up and support essential in the case of wholly (or substantially) subcontracted projects averages 10 percent. An arrangement for reimbursement for support costs at that rate on subcontracted projects would be acceptable. Failing adoption of such a provision, continuation of the special arrangements under which the Bank is reimbursed at a consolidated rate of 11 percent on its total UNDP program is an acceptable compromise.

Information submitted by the International Civil Aviation Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

I am pleased to submit information, as invited, regarding the impact the proposed modified formulae would have on the level of Support Costs Reimbursement to ICAO over the Third IPF Cycle 1982-1986, based on the assumptions for estimation of project expenditures that you have provided in your letter. This information is contained in four tables.

Table 1 shows the comparison between the modified and the current formulae for each of the three years and for the total period, 1977-1979, based on actual expenditure figures for 1977 and best available project expenditures figures for 1978 and 1979. The modified formula used for this Table 1 is the proposal that projects consisting of 75 per cent of equipment and/or sub-contracts should be reimbursed at a rate of 7 per cent. It will be noted that ICAO would receive \$438,000 less in Support Costs Reimbursement for this three year period on this modified formula basis as compared with the current formula. The reimbursement as a percentage of total project expenditure would drop from 14 per cent to 13.4 per cent.

Table 2 is a similar comparison for these three same years except the modified formula is based on the proposal that projects consisting of 70 per cent of equipment and/or sub-contracts should be reimbursed at a rate of 5 per cent. For the three years the total reduction in Support Costs Reimbursement would amount to \$732,000 and the percentage of reimbursement to total project expenditure would be 13.0 per cent as compared to 14 per cent under the current formula.

Table 3 is the comparison between modified and current formula for each year of the Third IPF Cycle, and for the total Cycle period, 1982-1986. The modified formula is based on the proposal that projects consisting of 75 per cent of equipment and/or sub-contracts have a reimbursement rate of 7 per cent. It will be noted that the economies of scale provision of the modified formulae also now applies because on the projected increase in the programme at 14 per cent per annum, the size of the estimated total annual project expenditure for projects consisting of less than 75 per cent equipment and/or sub-contracts exceeds \$50 million in each of the three years 1984, 1985, 1986. The total reduction in Support Costs Reimbursement to ICAO for the Third IPF Cycle would be \$1,326,000 which represents 13.6 per cent of total

project expenditure as compared with the current 14 per cent. Of this total the impact of the economy of scale proposal would be only slight for the overall period, being \$198,000 out of the abovementioned total of \$1,326,000 which thus represents almost completely an impact due to the nature and component mix of projects. For the final year 1986, where the total expenditure is greatest, the impact of economy of scale is necessarily the greatest, being \$108,000 out of the total reduction for this year of \$396,000.

Finally, Table 4 is similar to Table 3 covering the same period namely the Third IPF Cycle but with the modified formula based on 70 per cent of equipment and/or sub-contracts at a reimbursement rate of 5 per cent. The reduction in Support Costs Reimbursement to ICAO for the total period is \$2,250,000, with the support cost reimbursement being now 13.2% of total project expenditure as against the current basis of 14 per cent. The impact of the economy of scale proposal is again slight, being \$174,000 out of the total of \$2,250,000 which thus again is almost entirely an impact due to the nature and component mix of projects.

On the above basis of proposed formula and assumptions, it can be seen that ICAO would suffer an appreciable reduction in Support Costs Reimbursement, particularly if the formula for nature and component mix of projects is based on 70%/5% basis rather than the 75%/7%. However as we have been able to date to cover our overhead costs within the 14 per cent of total project expenditure, ICAO is prepared to agree to the proposed modification to the formula with a preference for the 75%/7% basis for the special category projects and with the expectation that the new formula will be firm at least over the period of the Third IPF Cycle.

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International Civil Aviation Organization

Reimbursement of Support Costs

Comparison between modified and current formulae
with modified formula based on projects consisting
of 75 percent of equipment and/or subcontracts
and on reimbursement rate of 7 percent

For the period 1977 to 1979

(in thousands of United States Dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>TOTAL 1977-1979</u>
Expenditures relating to UNDP-financed projects consisting of 75 percent equipment and/or subcontracts	987(a)	3,618(b)	1,645(c)	6,250
Expenditures relating to UNDP-financed projects consisting of less than 75 percent equipment and/or subcontracts	<u>14,113(a)</u>	<u>22,657(b)</u>	<u>28,619(c)</u>	<u>65,389</u>
TOTAL	<u>15,100(a)</u>	<u>26,275(b)</u>	<u>30,264(c)</u>	<u>71,639</u>
Support costs on projects consisting of 75 percent equipment and/or subcontracts at 7 percent	69	253	115	437
Support costs on projects consisting of less than 75 percent equipment and/or subcontracts at 14 percent	<u>1,976</u>	<u>3,171</u>	<u>4,007</u>	<u>9,154</u>
Total Support Costs based on modified formula	2,045	3,424	4,122	9,591
Total Support Costs based on current formula at 14 percent on total project expenditures	<u>2,114</u>	<u>3,678</u>	<u>4,237</u>	<u>10,029</u>
Reduction in Support Costs Reimbursement	<u>69</u>	<u>254</u>	<u>115</u>	<u>438</u>

(a) These are audited final figures.

(b) These are unaudited and preliminary figures.

(c) These are estimated expenditures based on current approved projects and firm pipeline projects.

TABLE 2

International Civil Aviation Organization

Reimbursement of Support Costs

Comparison between modified and current formulae with modified formula based on projects consisting of 70 percent of equipment and/or subcontracts and on reimbursement rate of 5 percent

For the period 1977 to 1979

(in thousands of United States Dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>TOTAL 1977-1979</u>
Expenditures relating to UNDP-financed projects consisting of 70 percent equipment and/or subcontracts	987(a)	4,798(b)	2,354(c)	8,139
Expenditures relating to UNDP-financed projects consisting of less than 70 percent equipment and/or subcontracts	<u>14,113(a)</u>	<u>21,477(b)</u>	<u>27,910(c)</u>	<u>63,500</u>
TOTAL	<u>15,100(a)</u>	<u>26,275(b)</u>	<u>30,264(c)</u>	<u>71,639</u>
Support costs on projects consisting of 70 percent equipment and/or subcontracts at 5 percent	49	240	118	407
Support costs on projects consisting of less than 70 percent equipment and/or subcontracts at 14 percent	<u>1,976</u>	<u>3,007</u>	<u>3,907</u>	<u>8,890</u>
Total Support Costs based on modified formula	2,025	3,247	4,025	9,297
Total Support Costs based on current formula at 14 percent on total project expenditures	<u>2,114</u>	<u>3,678</u>	<u>4,237</u>	<u>10,029</u>
Reduction in Support Costs Reimbursement	<u>89</u>	<u>431</u>	<u>212</u>	<u>732</u>

(a) These are audited final figures.

(b) These are unaudited and preliminary figures.

(c) These are estimated expenditures based on current approved projects and firm pipeline projects.

Table 3

International Civil Aviation Organization

Reimbursement of Support Costs

Comparison between modified and current formulae
with modified formula based on projects consisting
of 75 percent of equipment and/or subcontracts
and on reimbursement rate of 7 percent

For the period 1982 to 1986

(in thousands of United States Dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>TOTAL</u> <u>1982-1986</u>
Expenditures relating to UNDP-financed projects consisting of 75 percent equipment and/or subcontracts (a)	2,437	2,778	3,167	3,610	4,115	16,107
Expenditures relating to UNDP-financed projects consisting of less than 75 percent equipment and/or subcontracts (a)	<u>42,400</u>	<u>48,336</u>	<u>55,103</u>	<u>62,817</u>	<u>71,611</u>	<u>280,267</u>
TOTAL	<u>44,837</u>	<u>51,114</u>	<u>58,270</u>	<u>66,427</u>	<u>75,726</u>	<u>296,374</u>
Support costs on projects consisting of 75 percent equipment and/or subcontracts at 7 per cent	170	194	222	253	288	1,127
Support costs on projects consisting of less than 75 percent equipment and/or subcontracts at:						
14 percent on programme delivery up to \$50 million	5,936	6,767	7,000	7,000	7,000	33,703
13.5 percent on portion between \$50 and \$75 million	-	-	689	1,730	2,917	5,336
Total Support Costs based on modified formula	6,106	6,961	7,911	8,983	10,205	40,166
Total Support Costs based on current formula at 14 percent on total project expenditures	<u>6,277</u>	<u>7,156</u>	<u>8,158</u>	<u>9,300</u>	<u>10,601</u>	<u>41,492</u>
Reduction in Support Costs Reimbursement	<u>171</u>	<u>195</u>	<u>247</u>	<u>317</u>	<u>396</u>	<u>1,326</u>

(a) The figures for the period 1982 to 1986 are 1979 figures projected at 14 percent per annum, the annual rate of growth in programme resources and expenditures assumed by the Administrator.

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Table 4

International Civil Aviation Organization

Reimbursement of Support Costs

Comparison between modified and current formulae
 with modified formula based on projects consisting
 of 70 percent of equipment and/or subcontracts
 and on reimbursement rate of 5 percent

For the period 1982 to 1986

(in thousands of United States Dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>TOTAL 1982-1986</u>
Expenditures relating to UNDP-financed projects consisting of 70 percent equipment and/or subcontracts (a)	3,488	3,976	4,533	5,167	5,890	23,054
Expenditures relating to UNDP-financed projects consisting of less than 70 percent equipment and/or subcontracts (a)	<u>41,349</u>	<u>47,138</u>	<u>53,737</u>	<u>61,260</u>	<u>69,836</u>	<u>273,320</u>
TOTAL	<u>44,837</u>	<u>51,114</u>	<u>58,270</u>	<u>66,427</u>	<u>75,726</u>	<u>296,374</u>
Support costs on projects consisting of 70 percent equipment and/or subcontracts at 5 percent	175	199	227	258	294	1,153
Support costs on projects consisting of less than 70 percent equipment and/or subcontracts at:						
14 percent on programme delivery up to \$50 million	5,788	6,599	7,000	7,000	7,000	33,387
13.5 percent on portion between \$50 and \$75 million	-	-	504	1,520	2,678	4,702
Total Support Costs based on modified formula	5,963	6,798	7,731	8,778	9,972	39,242
Total Support Costs based on current formula at 14 percent on total project expenditures	<u>6,277</u>	<u>7,156</u>	<u>8,158</u>	<u>9,300</u>	<u>10,601</u>	<u>41,492</u>
Reduction in Support Costs Reimbursement	<u>314</u>	<u>358</u>	<u>427</u>	<u>522</u>	<u>629</u>	<u>2,250</u>

(a) The figures for the period 1982 to 1986 are 1979 figures projected at 14 percent per annum, the annual rate of growth in programme resources and expenditures assumed by the Administrator.

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Information submitted by the Universal Postal Union in response to the request of the Intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27 paragraphs 3 and 4)

I Information on the application of the modified reimbursement formula for support costs

1 Basic Data

a Programme delivery level and project components

	1977		1978		1979 (estimate)	
	\$	%	\$	%	\$	%
Project personnel	390 891	65.0	952 099	63.3	1 403 000	64.0
Subcontract	-	-	-	-	-	-
Training	164 817	27.4	342 053	22.8	440 000	20.0
Equipment	35 471	5.9	185 284	12.3	314 600	14.3
Miscellaneous	10 081	1.7	24 211	1.6	37 400	1.7
Participation in the costs-	-	-	-	-	-	-
Total	601 260	100.0	1 503 647	100.0	2 200 000	100.0

For the period 1982-1986, the percentages of project components will probably be of the same order, subject to a possible slight increase under "training" and "equipment".

At the end of the present programming cycle, the total cost of the projects will reach \$8.905 million for 5 years (\$2.4 million in 1980 and \$2.2 million in 1981), or \$1.78 million per year. On the assumption of a 14% increase, the costs of the projects for the third cycle (1982-1986) would be \$10.152 million or \$2.03 million per year. In any event, the cost of the projects will not exceed the planned limit for the "flexibility" arrangements.

b Support costs and cost of the projects

	Cost of projects Million \$	No of staff assigned	Support costs Million \$ fr		Conversion rate	Percentage of project costs %
1977	0.601	11.87	1.395	2.17	0.643	106.99
1978	1.504	12.60	1.446	1.73	0.836	55.59
1979	2.200	12.90	1.604	1.68	0.955	43.41

It should be noted that 1977 was an exceptional year for the UPU, which was seriously affected by the UNDP financial crisis. In all events the percentages of support costs in relation to the cost of the projects are fairly high. The main reason is the fall in value of the US dollar. Most of the UPU's expenditure is in Swiss francs since it has no regional offices or representatives in countries.

That being the case, if 1975, which can be considered as a normal year for the UPU with project costs of 2.4 million dollars, is taken as the basis of comparison, and if the support costs are expressed in Swiss francs, it can be seen that the

UPU's efforts to reduce those costs have had a remarkable result due to the reduction in the number of staff assigned to UNDP activities following internal reorganization, rationalization of work and as much decentralization of the administrative work as possible. The table below shows that development over the past five years.

	Cost of projects		Number of staff assigned	Support costs	
	Million \$	Index		Millions of S fr	Index
1975	2.388	100	21.54	2.088	100
1976	1.430	60	16.10	1.766	85
1977	0.601	25	11.87	1.395	67
1978	1.504	63	12.60	1.446	69
1979	2.200	92	12.90	1.604	77

However, this reduction in support costs is not reflected in the amounts expressed in US dollars because of the continual drop in value of that currency vis-a-vis the Swiss franc. The following table explains the situation and shows that the support costs percentages of the project cost are substantially improved when the 1975 rate of exchange is applied to all the following years.

Year	Cost of projects in millions of dollars	Support costs				Percentage of project cost		
		Millions of S fr	Conversion		Millions of dollars		A	B
			Rate A	Rate B	A	B		
1975	2.388	2.088	2.66	2.66	0.785	0.785	32.87	32.87
1976	1.430	1.766	2.44	2.66	0.724	0.644	50.63	46.43
1977	0.601	1.395	2.17	2.66	0.643	0.524	106.99	87.19
1978	1.504	1.446	1.73	2.66	0.836	0.544	55.58	36.17
1979	2.200	1.604	1.68	2.66	0.955	0.603	43.41	27.41

The total of UPU support costs for the present programming cycle (1977-1981), expressed in Swiss francs, is estimated at approximately 8 million Swiss francs, or 94% of the first cycle (8.5 million S fr for 1972-1976), although the cost of the projects increases by 10% (\$8.9 million compared with \$8 million).

It should be remembered, however, that in addition to the fall in the value of the dollar, there are other factors, such as those indicated below, which prevent the UPU improving the ratio between its support costs and project costs:

- the low level of the programme, as a result of the inadequate priority given by Governments to the development of the Post;
- the fairly considerable volume of work related to the procuring of projects, which does not always have positive results;
- the expenditure required to ensure minimum infrastructure.

The breakdown of the UPU's support costs is as follows:

- Salaries and allowances	76%
- Cost of common services	15%
- End-of-project costs (cost of staff missions, printing and translation of publications for the projects)	9%
	<hr/>
Total	100%

With regard to the future development for the third programming cycle (1982-1986), the UPU considers that on the assumption of an increase of 14% in the cost of projects, it might restrict the growth of its support costs, expressed in Swiss francs, to approximately 10% (8.8 million S fr compared with 8 million S fr), if it continues its efforts to reduce those costs.

However, it should be noted that the present level of support costs achieved by the UPU due to its sustained efforts, constitutes the minimum necessary to ensure the proper execution of UNDP projects.

2 Impact of the application of the new reimbursement formula for support costs

a The new formula will not, in general, affect the level of support costs reimbursement the UPU receives from UNDP for the following reasons:

- As indicated in 1, a, above, the annual cost of the UPU's projects will not reach the 15 million dollar limit during the 1982-1986 period, which makes it possible to anticipate that the UPU might continue to benefit from the "flexibility" allowance for small organizations.
- For the same reason, the planned measures for the economies of scale will not apply to the UPU.
- As the data provided in 1, a, show, the equipment and subcontract components of the projects will not reach the level of 75 (70) % of the total cost of the projects, which would exclude the application of the measures foreseen under (iii) of the new formula.
- Government execution, if it were to apply to some UPU projects during the next programming cycle, would have only a small impact on the level of reimbursement received by the UPU.

b UPU's efforts to reduce its support costs will be continued irrespective of the introduction of the new reimbursement formula. The data supplied under 1, b, above, in particular the last table, gives an idea of these efforts and the results obtained.

II Comments on the draft decision

On the basis of the considerations in chapter I, the UPU considers that the proposed new formula is acceptable as a whole.

However, it should be pointed out that neither the present system nor the new formula allows UPU to receive complete reimbursement of its support costs for the reasons given in chapter I, under 1, b.

In fact, in spite of the kind understanding of the Governing Council and the Administrator of UNDP, thanks to which the UPU benefits each year from a "flexibility" allowance, from the reimbursement it receives, it was possible to cover only 61% of the support costs during the years 1972-1976, and the UPU had to meet the remainder (39%) from its budget.

This situation gets progressively worse because of the continual fall in the value of the US dollar, so that in 1978 the UPU had to cover 42.28% of its support costs from its budget. For 1979, if the March conversion rate (1.68) were to apply to the amount asked by the UPU from UNDP (\$500 000), the UPU would have to bear 52.36% of its support costs (budget estimate of 1.604 million S fr).

If the 1978 rate (1.73) were maintained, this charge to the UPU would be reduced to 46%; if the 1975 rate (2.66) could be utilized, the same sum of \$500 000 would give an equivalent of 1.330 million S fr, representing 83% of the support costs, which would reduce UPU's burden to only 17%!

In these circumstances, the UPU sincerely hopes that the last sentence of provision (i) of the new formula is maintained and applied, so that it can have the possibility of obtaining a special allowance to cover the loss caused by the fall in the value of the US dollar.

Information submitted by the International Telecommunication Union
in response to the request of the intergovernmental Working Group
on Support Costs, contained in its decision adopted in January 1979
(DP/WGOC/27, paragraphs 3 and 4)

As instructed in paragraph 3 of the decision, the ITU has studied the modified formulae proposed in the operative part II of the Group's draft decision and has prepared its comments on the impact of the new formulae which are summarized in Annex I.

In this respect, I would like to emphasize that, according to our estimates, the new formulae will not modify the level of Support Cost ITU will receive during the next cycle from its participation in the UNDP programmes. The ITU programme delivery has now reached the level of 16 million US Dollars in 1978 and will grow to 20 million US Dollars in 1979. Assuming a steady growth of the programme resources during the next cycle, the ITU expenditures may well reach the level of 35 to 40 million Dollars at the end of the third cycle. Consequently the rate of reimbursement applicable for that period will remain at 14 per cent.

Nevertheless because of the unsolved problem of currency variations, the ITU is looking into the future with a certain apprehension and I regret that the question of currency fluctuation could not yet be solved in a more pragmatic way. In effect, it is felt that the ad hoc arrangement mentioned in the proposed formulae under the heading "Flexibility arrangement", and which deals with the cases of special hardship arising from currency fluctuation, still constitutes a serious handicap for the Agencies based in Geneva.

In this connexion it must be mentioned that, as it is most likely that the enduring depreciation of the Dollar versus the Swiss franc will continue to prevail in the near future, the ITU will be unable to do any forward planning as long as the yearly amount of Support Cost income continues to fluctuate. Consequently, the ITU will be obliged to submit post facto a request for ad hoc arrangements to the Governing Council with no guarantee that the demand will be accepted. This implies that possibilities of responding quickly to an increased programme are limited and hampered by these relatively heavy procedures. In view of this unsatisfactory situation, the ITU still hopes that the Working Group may, at its next session, consider a proposal dealing with the variations in cost levels for the Geneva-based Agencies. In our view it is felt that an interim solution covering at least a few years could be introduced by adopting a fixed rate of exchange for the US Dollar versus the Swiss franc. This solution would have the advantage of allowing the Agencies concerned to undertake their forward planning on the basis of a certain stability in their incomes and therefore strengthening their capacity to implement without delay the technical assistance programmes assigned to them by UNDP.

I.T.U.

Information regarding the impact of the modified
formulae outlined in operative part II

(i) Flexibility arrangements

- ITU's annual programme delivery has reached the level of \$16 million in 1978 and consequently we shall no longer be entitled to the flexibility for smaller Agencies.
- The ITU will have to apply for flexibility on an ad hoc basis as a case of special hardship as long as the Dollar depreciation versus the Swiss franc remains at the present level. (See also our comments in covering letter).

(ii) Economies of scale

The ITU programme delivery for the third cycle may reach a level of \$35 to \$40 million at the end of the cycle provided the programme resources increase by 14 per cent annually. Consequently the ITU will not be affected by this provision.

(iii) Nature and component mix of projects

The equipment component of projects executed by the ITU represents only an average of 22 per cent of the total project costs. It is really in very exceptional cases that a project consisting of 70 per cent or more of equipment component is assigned to the ITU. Therefore the impact of this element of the formulae is minimal to the ITU.

(iv) N.A.

(v) Method of execution

The ITU agrees with the proposed solution. Here again the impact will be minimal. The projects in the specialized field of telecommunications are not likely to be executed by Governments in the very near future.

Information submitted by the World Meteorological Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

With respect to paragraph 3 of the decision please find enclosed information regarding the impact the modified formula would have on the level of support cost reimbursement to WMO.

You will note that as a small Agency receiving an additional allocation under the flexibility provision WMO is not likely to be affected by the use of the modified formula, at least in the early part of the third IPF cycle. If, however, the programme delivery were to exceed \$15 million by 1984, as computed on the basis of the 14 per cent annual growth rate assumption, WMO might need to request some additional reimbursement on an ad hoc basis.

Effect of the Application of the Modified Formula
on Support Cost Reimbursements to WMO

Since WMO now receives an additional support cost allocation under the flexibility provision applicable to Agencies with delivery less than \$10 million and the modified formula proposed by the Administrator includes a flexibility provision for Agencies with delivery up to \$15 million, the application of the modified formula would have no effect on the support cost reimbursement to WMO for the years 1977, 1978 and 1979.

During the third IPF cycle, however, depending on the rate of increase in UNDP resources and the percentage of the programme devoted to meteorological and hydrological development, WMO's delivery could exceed \$15 million and flexibility would no longer be applicable. Under these circumstances not only would any additional allocation needed to cover Agency costs be discontinued but also the level of reimbursement for implementing projects consisting of 75 per cent or more of equipment and/or sub-contracts would be reduced. Assuming that WMO would continue to implement 1.95 per cent of the total UNDP programme (as in 1977) WMO's delivery would exceed \$15 million by 1984 if UNDP's programme resources and expenditures were to have an annual growth rate of 14 per cent. If, however, the annual growth rate were to be at the 10 per cent level, WMO's programme delivery would reach \$15 million in 1986.

The following table is based on the assumptions used by the Administrator in estimating a global savings of \$50-\$60 million over the third cycle, namely:

- i) a 14 per cent annual growth rate in total UNDP resources;
- ii) a constant percentage of total resources for projects to be implemented by WMO;

- iii) a constant flexibility provision in the amount received by WMO in 1977 (\$617,238) until programme delivery exceeds \$15 million;
- iv) when delivery exceeds \$15 million, projects consisting of 75 (70) per cent or more of equipment and/or sub-contracts to be compensated at the 7 (5) per cent rate. (It is also assumed that the percentage of total WMO delivery in this category during 1976, 1977 and 1978 will be continued during the third cycle).

Support Costs based on Modified Formula (in millions of US \$)

Year	Projected delivery	14% of delivery	14% of delivery plus flexibility	Reduction to 7% on 75% equip./subcons.	Support cost to be received	Reduction to 5% on 70% equip./subcons.	Support Costs to be received	Percent Support Cost on total delivery
1977	6.574	.920	1.538					23.4
1978	7.494	1.049	1.666					22.2
1979	8.543	1.196	1.813					21.2
1980	9.739	1.364	1.981					20.3
1981	11.103	1.554	2.172					19.6
1982	12.657	1.772	2.389					18.9
1983	14.429	2.020	2.637					18.3
1984	16.450	2.303		.108	2.194	.147	2.156	13.3-13.1
1985	18.753	2.625		.123	2.502	.167	2.458	13.3-13.1
1986	21.378	2.993		.141	2.852	.190	2.802	13.3-13.1

The information given in this table is based strictly on the application of the modified formula to UNDP delivery under the assumptions given above. It assumes a constant amount of flexibility which in reality would not be the case. The amount of flexibility required to meet the administrative support costs incurred will depend on a number of factors which cannot be accurately projected at this time. Principally, it will depend on the amount of total delivery under all extra-budgetary technical programme (UNDP, trust funds and associate experts) which provide support cost reimbursement and on the US dollar-Swiss franc exchange rate experienced during the year. Therefore the percentage shown in the last column can be considered only as an indication of the general order of magnitude and trend under these specific assumptions.

In view of the uncertainties mentioned above some funding difficulties may arise when (and if) the level of WMO's delivery exceeds \$15 million. It may be seen in the table that the projected reimbursement will be significantly reduced at that point and, depending on the circumstances existing then, some additional assistance from UNDP may be needed to ensure effective implementation of UNDP projects. In accordance with a decision taken by the governing body of the Organization all

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administrative costs associated with the implementation of technical assistance projects funded from extra-budgetary sources must be borne by the source financing the technical assistance. Therefore support costs from trust fund and associate expert projects, at 14 per cent and 12 per cent respectively, and from UNDP projects must be sufficient to finance the administrative support provided.

The primary factor determining administrative support costs of Agencies located in Switzerland is the US dollar-Swiss franc exchange rate. Ninety-five per cent of all of WMO's expenditures in respect of support costs of technical co-operation activities are made in Swiss francs and the exchange rate determines the total cost incurred in US dollars. During the period from 1972 to 1978 the mean annual exchange rate decreased from 3.83 to 1.80 and the consumer price index increased from 128.6 to 171.6 which in effect reduced the purchasing power of the US dollar in Geneva from 1.00 to 0.35, thus almost tripling the costs incurred for comparable services. In order to reduce costs as much as possible WMO reduced the number of staff financed for technical co-operation activities from 52 to 44 over this same 1972-1978 period, and has undertaken other economies to the extent possible. In view of the larger programme anticipated in future years further reduction of staff is not considered advisable. Therefore, although WMO will remain alert to all possibilities for cost reduction there appears to be very little that can be done to reduce costs significantly without reducing the actual support provided in the implementation of projects.

Information submitted by the World Intellectual Property Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

WIPO programme delivery level is still far below \$15 million and we thus fall under the flexibility arrangements provided for in operative part II of the above-mentioned decision. Under these circumstances, economies of scale will not apply to WIPO and the modified formulae will have no impact on support cost levels.

Information submitted by the International Fund for Agricultural Development in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

At this time, we do not have any comments to offer and would have no particular suggestions regarding the modified formulae for computing support costs.

Information submitted by the World Tourism Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

In view of WTO's short experience in this area, it would appear that the new formula suggested by the intergovernmental Working Group is acceptable.

Information submitted by the Inter-American Development Bank in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

The technical co-operation projects we manage on behalf of the UNDP are only a fraction of our own programme on this field (less than 3 per cent measured as actual disbursement or projects delivery). For this reason, we do not keep separate accounts on our total cost of handling UNDP projects.

As to our own programme, figures show that the Bank costs of technical co-operation execution activities for the period 1975-1978, is very close to 14 per cent of the delivery (13.96 per cent over an annual average disbursement of \$18.5 million). These figures do not include other technical co-operation related activities as promotion, programming, project preparation and analysis, projects approval process and evaluation. If the costs of these activities are included, the above-mentioned figure rises to 25.3 per cent.

Considering that for UNDP financed projects we perform mainly, although not exclusively, execution type activities, the 14 per cent allowed to cover support costs would finance the bulk of them. On the other hand, as we handle a small amount of UNDP projects, the proposed new formula for support costs coverage does not signify any change for us in relation with the prevailing arrangements.

Information submitted by the World Food Programme in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

We have studied the paper, but have not comment to offer since the Programme does not execute any projects or provide any reimbursable services on behalf of the UNDP.

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