

UNITED NATIONS DEVELOPMENT PROGRAMME



Distr.
GENERAL

DP/WGOC/L.4
15 June 1979

ORIGINAL: ENGLISH

GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fourth session
June 1979

DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS

Rapporteur: Mr. Peter OSVALD (Sweden)

INTRODUCTION

1. The fourth session of the intergovernmental Working Group on Support Costs was held at the United Nations, New York, during the period 4- June 1979. The Chairman of the Group was Mr. Sarfraz Khan MALIK (Pakistan); Mr. Peter OSVALD (Sweden) served as Rapporteur.

I. ORGANIZATION OF THE WORK

Attendance

2. Members of the Governing Council, States represented by Observers, and organizations and entities in the United Nations System and other intergovernmental bodies participated in the Working Group's session.

Agenda and organization of work

3. The agenda consisted of a continuation of the discussion of proposals for a modified formula for the reimbursement of agency support costs. The documentation before the Group was:

- (a) Note by the Administrator attaching information submitted by the Specialized Agencies in response to the request of the Working Group contained in its decision adopted in January 1979 (DP/WGOC/28, DP/WGOC/28/Corr.1 and DP/WGOC/28/Add. 1-3).
- (b) Note by the Administrator conveying the reply submitted by the Joint Inspection Unit in response to the request of the Working Group (DP/WGOC/29).
- (c) Draft Report of the intergovernmental Working Group on Support Costs (DP/WGOC/L.3).

/...

II. INTRODUCTORY STATEMENTS

4. In his introductory statement, the Chairman summarized briefly the background to the current session, beginning with the decision of the Governing Council in 1977 to set up the Working Group and concluding with the draft decision proposed at the third session in January which was before the Group at the present session. The Chairman identified a number of the principal elements which had emerged from the Group's deliberations. These were:

- (a) that there was a wide recognition that the present flat rate reimbursement of 14 per cent had significant drawbacks and was not acceptable on a long-term basis;
- (b) that there was a consensus reached last June that there should be modifications to reflect adjustments for economies of scale, for variations in the mix of project components and for the method of execution of projects;
- (c) that there was broad support for the Administrator's proposals, at least as an interim modified solution for a limited period, although there were some reservations in the specifics and at least one large Agency had expressed strong opposition to the economies of scale adjustments;
- (d) that there was agreement that a long-term solution must be based on arrangements for generating cost data on support costs incurred and that there must be arrangements for adequate intergovernmental review of these costs; and
- (e) that there was recognition that any adjustments in the UNDP reimbursement towards support costs should be regarded as providing an incentive to review and reduce the costs in question and not as automatically requiring increased expenditure from other sources of funds.

5. The Administrator, in his remarks, underscored the conclusion of the Governing Council that the issue of the amount of reimbursement to be made by UNDP for support of executing projects was a matter for broad policy decision by governments, going beyond merely financial or technical considerations. He expressed the hope that governmental positions in the different legislative bodies of the System would be sufficiently co-ordinated so that the policy decisions transmitted to the various secretariats would reflect the same posture of governments on issues which affected all organizations so that the activities undertaken would become even more efficient, effective and economical for the benefit of the developing countries. The Administrator recalled that he had recommended that the present arrangements, together with the flexibility arrangements in force, should in any event be continued until the end of the current IPF cycle, that is for the years 1980 and 1981.

/...

III. SUMMARY OF DISCUSSION

6. The Chairman opened the discussion by summarizing the substance of the main points made by the Agencies as contained in the note by the Administrator (DP/WGOC/28, DP/WGOC/28/Corr.1 and Addenda 1-3).
7. One member repeated the view of his government, advanced at previous sessions, that there should be greater competition in the selection of methods and entities for the execution of projects as a means of reducing support costs and that Executing Agencies should inform governments on the use of support cost reimbursements in each project executed in national programmes. His delegation also suggested that the Agencies consider the possibility of the adoption of procedures that would reduce support costs through competition among the possible executing entities and consulting institutions. These views were supported by another member who saw merit in this proposal as a means of reducing the burden of providing for support costs from the regular budget of the Agencies which was the primary concern of his delegation.
8. The Deputy Administrator pointed out that the suggestion to reduce support costs through competition among the possible executing agencies raised fundamental issues touching upon the principle of partnership and of the totality of the relationships between the Agencies and UNDP and would therefore require consideration by the Governing Council itself.
9. One member regretted that the information conveyed by the Agencies in document DP/WGOC/28 confirmed his government's impression that the impact of the modified formula would be arbitrary and distorting and that it was unrealistic to claim that compensating increases would not occur in the regular budgets of the Agencies affected. In the view of this delegation, the modified formula was not a solution to the problem of agency support costs, even on an interim basis.
10. Another member, although prepared to support the Administrator's proposals, proposed a slightly different approach to the issue. Thus a formula might be devised dealing in aggregates and based on the following factors:
- i. total agency support costs associated with all technical co-operation programmes;
 - ii. the volume of all technical co-operation programmes administered by the Agency by source of funds, i.e. UNDP, assessed budgets, other sources such as multi-bi, funds-in-trust, etc.; this breakdown would be used to determine the amount of support costs relating to UNDP-financed activities;
 - iii. a ratio, to be recommended by the intergovernmental Working Group, to determine the share of support costs for UNDP-related activities as derived above which should be borne by UNDP, the balance to be met by the regular budget of the Agency reflecting the principle of partnership and the mutually supportive nature of the two activities. A standard definition of terms to be included in support costs would have to be established prior to identifying these costs associated with administering technical co-operation in the Agencies.

11. Another member suggested a two-stage approach to the question consisting of an interim arrangement based on the Administrator's proposals, or the elements outlined above, and a second stage consisting of continuation of work on a longer-term solution. He suggested that any recommendation in respect of the third cycle should be deferred until June 1980 which would permit further review of the issue by the governing bodies of the Agencies. His delegation would also like to see a disaggregation, as part of the normal budgetary presentations, of the additional costs directly associated with the implementation of the UNDP programme in each Agency and the strengthening of the procedures for intergovernmental review of the use of UNDP support cost reimbursements. He suggested the commissioning of an independent, but limited, study of selected procedures and costs designed to examine the conceptual basis for the provision of support costs and to establish a "bench mark" range of per unit costs for certain tasks.

12. Still another member expressed the view that the results of the calculations of the Agencies seemed to indicate that the revised formula could result in savings for UNDP. He pointed out that to insist on an unchanged 14 per cent reimbursement for all kinds of activities, and irrespective of the size of the programmes, would in effect mean that UNDP was required to finance a growing relative share of the Agencies' support costs. This was not acceptable to his government since it did not adequately reflect the concept of partnership. The continuation of the present 14 per cent formula would change the balance to the detriment of UNDP and reduce the resources available for IPF's. His government was, however, prepared to accept the modified formula proposed by the Administrator although it fell short of what it had intended to achieve.

13. The Working Group then went into a series of informal meetings. The Group reconvened in formal session on _____ and adopted the following decision:

The intergovernmental Working Group on Support Costs

Recalling its decision of 9 June 1978 in which it outlined the criteria and guidelines on the basis of which the Administrator was requested to recommend a modified formula, in consultation with the Executing Agencies, for reimbursement of support costs; recalling further that in that decision the Working Group had specifically underlined the importance of adjustments to take account of economies of scale, nature and component mix of projects and method of execution,

Having reviewed, with appreciation, the report of the Administrator (DP/WGOC/25 and Corr.1) and the comments thereon by the Advisory Committee on Administrative and Budgetary Questions (A/33/7/Add.21) and the Joint Inspection Unit (DP/WGOC/26), and the additional information received from the Agencies (DP/WGOC/28, Corr.1, and Add.1, 2, and 3),

Taking into account the comments, observations and suggestions made during the discussion of this question,

Having continued the examination of this question bearing in mind the terms of reference and criteria laid down by the Governing Council in its decision establishing the Working Group at its 588th meeting on 29 June 1977, in which reference was made, inter alia, to the question of the reduction of overhead costs with the purpose of achieving an over-all reduction in programme support costs,

Recalling the statements in its decision of 9 June 1978 that over-all programme and project support costs have reached significantly large levels, that any new reimbursement formula should provide an incentive to review and reduce over-all support costs and that any UNDP funds released by a reduction of support costs would be fully available for additional programmes in developing countries through a corresponding increase in resources available for IPF's,

5. Considers further that, in the meantime, the existing arrangements which have been authorized until the end of 1979 should be continued until the end of 1981;

6. Decides in view of the foregoing that the Governing Council should be requested to authorize the continuation of the Working Group until the end of the twenty-seventh session of the Governing Council in June 1980;

7. Recommends that the Governing Council adopt the following decision:

The Governing Council,

Having considered the report of the intergovernmental Working Group on Support Costs (),

Taking account of the comments and observations made during the discussion of this item,

1. Takes note of the decision adopted by the Working Group at its current (June 1979) session;

2. Approves the commissioning of the limited study by an independent consultant as recommended by the Working Group as well as its proposed terms of reference and timetable, as contained in the decision of the Working Group and the Annex thereto;

3. Invites the Economic and Social Council to request the Agencies to consider the possibility of bringing together, in an Annex to their budget documents information on their technical co-operation programmes and the related support costs financed from differing sources based on agreed definitions of the elements to be included in support costs;

4. Invites the Executing Agencies to consider the feasibility of advising the recipient governments of the projected utilization of the support costs reimbursed by UNDP and/or, to the extent applicable, covered from the Agency's regular budget corresponding to the total UNDP-financed projects being executed by the Agency in a national programme;

5. Decides that, in the meantime, the existing arrangements for reimbursement of Agency support costs which have been authorized until the end of 1979 should be continued until the end of 1981;

6. Decides to continue the Working Group until the close of the twenty-seventh session of the Council (June 1980).

/...

Believing that any reduction in UNDP reimbursement of support costs cannot be regarded as automatically calling for an increase from other sources of funds or as a mere redistribution of costs among different sources,

Noting at the same time that the several organizations have not provided or are not in a position, under present organizational and accounting arrangements and procedures, to provide specific information on identified support cost elements or comparable cost data relating to them,

Considering, therefore, that the Working Group does not have adequate information on the costs of administering technical co-operation activities in the United Nations system to enable it to make a recommendation at its June 1979 session of a long-term solution acceptable to all parties concerned,

Convinced that efforts should be continued to seek ways and means of instituting adequate arrangements and systems in the organizations designed to generate cost data which would give a clear picture of the support costs arising in respect of technical co-operation activities, with a view to the over-all reductions of these costs,

1. Considers that a limited study be commissioned, to be undertaken by an independent consultant, to be appointed by the Administrator, to provide the Working Group with the information and other elements it requires to enable it to recommend long-term arrangements for the reimbursement of Agency support costs associated with the administration of technical co-operation activities of the United Nations system, with a view to bringing about an over-all true reduction in such costs including the part met by Agency regular budgets. The considerations which should be borne in mind in undertaking the study and the terms of reference for it are contained in the Annex to this decision. The study should be submitted to the Working Group, through the Administrator of the UNDP, by 1 March 1980 in order to permit the members of the Working Group to study its contents prior to the twenty-seventh session of the Governing Council in June 1980;

2. Expresses the hope that a recommendation for long-term arrangements and for any interim period after 1981 if necessary for the reimbursement of support costs with respect to technical co-operation activities will be formulated in June 1980 in the light of the findings and conclusions of the study;

3. Considers that the costs related to support services warrant greater inter-governmental scrutiny and that the Economic and Social Council should be invited to request the Agencies to consider the possibility of bringing together in an annex to their budget documents information on their technical co-operation programmes and the related support costs financed from different sources based on agreed definitions of the elements to be included in support costs;

4. Requests the Governing Council to invite the Executing Agencies to consider the feasibility of advising the recipient governments of the projected utilization of the support costs reimbursed by UNDP or, to the extent applicable, covered from the Agency's regular budget corresponding to the total UNDP-financed projects being executed by the Agency in a national programme;

/...

Annex to the Decision of the Working Group

Terms of reference

1. The objective of the study, which will be carried out in full co-operation with the Executing Agencies and the UNDP, will be to provide the Working Group with information on the cost of administering technical co-operation activities and other elements it requires to enable it to recommend long-term arrangements for meeting support costs associated with the administration of United Nations technical co-operation programmes with a view to bringing about an over-all reduction in such costs.
2. The study should keep in view the mandate given to the Working Group by the Governing Council in its decision of June 1977 (E/6013, para. 348).
3. The study should be based on a clear definition of the elements of costs to be included in support costs along the lines of the criteria for such definition as outlined by the Joint Inspection Unit in paragraphs 10-11 of its Note (DP/WGOC/1) and endorsed by the Working Group and accepted by the Administrative Committee on Co-ordination (DP/WGOC/22, para. 17).
4. The study should also address:
 - (a) the elements included under paragraph II, 3(b) of the Annex in document DP/WGOC/27, the suggestions contained in the Administrator's report (DP/WGOC/25), and the comments of the Agencies in document DP/WGOC/28, and Corr.1 and Addenda 1, 2 and 3;
 - (b) the feasibility of the proposal contained in the document DP/GC/XXVI/WGOC/CRP.2 and its impact on the budgets of the Agencies;
 - (c) ways and means of instituting adequate arrangements and accounting systems in the Executing Agencies designed to generate cost data which would give a clear picture of actual support costs in respect of technical co-operation activities.
5. The limited nature of the study should not preclude the submission of any conclusions that the consultant may wish to submit within the framework of this mandate.
