



GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fifth session
June 1980

DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS

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INTRODUCTION

1. The Intergovernmental Working Group on Support Costs held its fifth session at the United Nations, Geneva, during the period 2-16 June 1980. Madame Suzanne VERVALCKE (Belgium), Chairman of the Group, presided and Miss Mariam AL-AWADHI (Kuwait) served as Rapporteur.

I. ORGANIZATION OF THE SESSION

Attendance

2. Represented at the session of the Working Group were members of the Governing Council, States represented by Observers, and organizations in the United Nations System and other intergovernmental bodies. A list of attendance is included as the Annex to the present report.

Agenda and organization of work

3. The Working Group had before it document DP/WGOC/31, Note by the Administrator on Agency Support Costs, which contained the findings of a study carried out in response to the Council's decision 79/40 adopted at the twenty-sixth session, and DP/WGOC/V/CRP.1, a draft decision on this subject.

II. INTRODUCTORY STATEMENTS

4. The Deputy Administrator introduced the study which had been prepared by Mr. J.I.M. Rhodes at the request of the Intergovernmental Working Group. He stressed that the late receipt of the study by members was due to the delay in processing of the document and was in no way attributable to the timely preparation of the study by Mr. Rhodes.

5. Mr. Rhodes summarized the main findings and recommendations of the study. He proposed a 15:10:10 formula; i.e. 10 per cent reimbursement in respect of equipment, 10 per cent for subcontracting component and 15 per cent for personnel, training and miscellaneous costs. He recommended the continuation of flexibility arrangements for smaller Agencies, with the limit for eligibility being raised to \$15 million of UNDP programme or, preferably, \$25 million of all technical co-operation programmes executed by the Agency. Two optional refinements were: (a) a disincentive against project cost over-runs by reimbursing support costs for personnel, training and miscellaneous components at 20 per cent for the first half of the original estimate and 10 per cent for subsequent expenditures for these components; and (b) a cost-of-living adjustment of 1 per cent increase or decrease for each five points difference in the post adjustment index for a headquarters station above or below the weighted average of post adjustment indices at all headquarters stations.

6. The Chairman thanked Mr. Rhodes and recalled the four principles already established in previous discussions -- namely that the solution on support cost reimbursement should be (a) valid for the longer term; (b) acceptable for all the parties concerned, including member States; (c) reasonably simple to administer; and (d) applicable to other technical co-operation programmes of the United Nations system. A decision should be taken at this session since the problem had been under discussion over a period of seven years.

7. The Agencies agreed that the report was constructive and that a decision should be taken at this time, while drawing attention to the need to distinguish between reducing support costs over-all and reducing the money expended by UNDP for support costs. Representatives generally accepted the concept of UNDP-Agency partnership in the present 14 per cent formula and felt that since nearly all agencies incurred costs in excess of 14 per cent, undertaking cost measurement studies to identify the part of their support costs which was borne by their regular budget was unwarranted. One representative stressed that his Agency could not accept any reduction in reimbursement of support costs without approval of its governing body. Several smaller Agencies noted that clearly identifiable additional costs for extra-budgetary technical assistance should be met by the funding source.

8. The majority of Agencies preferred a flat rate of reimbursement rather than the 15:10:10 formula. However, many indicated that they could not absorb additional costs in their regular budgets which might be incurred under any option. Some Agencies felt it would not serve the interests of developing countries to create an incentive in favour of subcontracting over other forms of execution. The flexibility provision for smaller Agencies was supported as was the proposal to raise the defining limit to \$15 million of the UNDP-financed programme or \$25 million of technical co-operation activities of an Agency. Most Agencies opposed the incentive scheme on the grounds that: (a) project extensions result from a variety of factors, many of which are outside the direct control of the Agency; (b) the expertise in initial project stages may identify essential dimensions which have been overlooked; (c) the scheme would be administratively complicated to operate; and (d) it would not necessarily lead to more effective project planning and cost management. Cost over-runs should be decreased through better project design, realistic work plans and effective monitoring by the Government, Executing Agency and UNDP. It was emphasized by a number of Agencies that the recommendations of the consultant offered only partial compensation for the combination of inflation and exchange rate loss since the early 1970s. Inflation was a principal problem for nearly all Agencies and those located in Geneva, Vienna and Paris, in particular, supported the recommendations for a cost-of-living adjustment, although it was agreed that such compensation to some Agencies should not be made at the expense of others.

III. SUMMARY OF DISCUSSION

9. There was unanimous appreciation for the study provided by Mr. Rhodes.
10. Most members were agreed upon the importance of four points: (a) the end goal was a real reduction in over-all support costs of the United Nations system as a whole rather than UNDP's rate of reimbursement; (b) of the available options, it was noted that Agencies preferred a flat rate to a differentiated formula; (c) there should be ex-post facto reporting by the Agencies on total support costs, while avoiding detailed cost measurement studies, since many governments wanted more clarity in accounting for how resources for support costs were being used; and (d) the solution adopted should not lead to an automatic transfer of costs to the Agency regular budgets but should encourage all parties concerned to take greater measures to increase productivity and reduce over-all support costs.

11. Some members were concerned that the UNDP component of administrative costs should also be firmly controlled and one member suggested that a flat 12 per cent limit on these costs should be adopted as an incentive to UNDP to contain costs. A number of members expressed disappointment that comparable cost data was still not available from Agencies and suggested that the Working Group invite Agencies' governing bodies to agree to adopt standardized accounting procedures for providing clear information on expenditures for support costs and to participate in setting up a reporting mechanism which would show more clearly the real costs for support and by whom they were borne. Several members also noted that a more precise definition of support costs was needed.

12. With regard to formulas for differentiated reimbursement by project component, members who supported the 15:10:10 formula felt that it would reduce reimbursements by UNDP, thus releasing additional UNDP resources for direct assistance to developing countries. In addition two other differentiated proposals were put forward. One member, on behalf of four governments, accepted the 15 per cent rate for personnel reimbursement but felt that 6 to 8 per cent on equipment and subcontracts, preferably the former, would be more in line with their experience. Another member stressed that after inflation and combined UNDP and Agency support costs, only about 60 per cent of resources go to recipient countries. Greater efficiency was needed from the system as a whole and an average rate of 12.5 per cent over several years could be achieved by a formula of 15:10:8, with Agencies being protected from declines in income by the increase in volume of delivery.

13. Other members did not favour any of the differentiated formulas, which they felt implied a reduction in over-all reimbursement to Agencies as this could lead to requests for proportionate increases in the regular budgets of the Agencies. They found no advantage in changing the existing 14 per cent flat rate of reimbursement, citing: (a) the study had not convinced them that this rate was too high; (b) the 15:10:10 formula would not necessarily reduce support costs as a whole although it might reduce the cost to UNDP; (c) distortions could occur in the relative component mixes of projects in favour of certain components; (d) a differentiated formula had been tried in the past and found wanting; and (e) over-all support costs would be more effectively reduced if viewed in the context of the role of experts, use of nationals and government execution.

14. Those members who disagreed with the above points stressed that they did not accept the argument that a slightly lower reimbursement rate, either under the 15:10:10 formula or at a reduced across-the-board rate of 13 per cent, necessarily implied an automatic proportionate transfer of costs to the regular budgets of Agencies. Strenuous efforts were needed to bring about an over-all reduction in costs as a whole and this was an important first step. The answer was to improve productivity in both the Agencies and UNDP and to apply flexibility if required. An important clause of protection for the Agencies could be the provision that no Agency should receive in each year of the 1982-1986 period less reimbursement than that it had received in 1981 unless 14 per cent of actual expenditure in that year would have produced a lower figure in any case.
15. In response to requests, a representative of the UNDP administration reviewed the history of levels of support cost reimbursement. Prior to 1974 a 12 + 1 percentage rate applied. After 1974 the rate of 14 per cent had been applicable until such time as a longer term solution was decided. The present authorization would expire in 1981.
16. One member stated that in his view if the present authorization expired, reimbursement would then revert to the old 13 per cent rate.
17. As regards a future 13 per cent flat rate, it was noted that any savings to UNDP would revert to general resources and could be reallocated, for example, to supplement any draw-down on the Programme Reserve or unallocated resources in the third cycle. In response to requests by several members that a guarantee be provided that this reimbursement rate (a) would not result in a net transfer of costs to the regular budgets of Agencies and (b) would result in an over-all cost reduction, the Deputy Administrator reporting to the Working Group following an informal meeting with Agencies, noted that the Agencies accept the need to contain total support costs and, while they felt that they were already operating in an efficient manner, they would no doubt seek further measures of economy. However, within that understanding they could not provide guarantees that the adoption of a 13 per cent rate would not result in additions to their regular budgets for consideration by their governing bodies. Arrangements for the Agencies in high cost areas would necessarily depend upon the provision for cases of hardship. The ex-post facto reporting of support cost information could be used by governing bodies for monitoring and taking decisions on support costs for UNDP projects and the budgets of Agencies.

18. The Agencies stated that reimbursement arrangements agreed upon should also be applied to other technical co-operation activities executed by the Agencies, including trust funds and UNFPA.
19. Turning to arrangements for flexibility to Agencies, most members agreed that the over-all size of the technical co-operation programme implemented by an Agency was relevant to the level of support costs. They generally favoured increasing the limit at which small Agencies became eligible to apply for flexibility; however, it was decided to revert to the question of specific guidelines on this aspect at the twenty-eighth session. On the other hand as regards larger programmes, some members felt that there were economies of scale to be realized by the larger Agencies.
20. Many members and Agencies attached great importance to reaching a settlement which would govern support costs for the next decade and not merely the third programme cycle. Moreover, they agreed with Agencies that the reimbursement arrangements should ideally be applicable also to other technical co-operation activities executed by the Agencies and financed from trust or similar funds, although it was recognized that the Council's authority in this regard was limited to programmes under its supervision.
21. A number of members did not favour the adoption of a cost-of-living adjustment although they were sympathetic to the arguments put forward by Agencies in high cost areas. Some members felt that the relationship between Agency costs in backstopping technical co-operation and the costs-of-living prevailing at their Headquarters was not as direct as the consultant's report had indicated. The present ad hoc arrangements whereby individual "hardship cases" were submitted to the Council should be continued, but the Administrator should use discretion in making recommendations on these to the Council in order to avoid a proliferation of such requests.
22. While a few members spoke in support, a number of members agreed with points made previously by Agencies on the unworkable nature of the incentive scheme, noting in addition that they were reluctant to approve a scheme for which the results could not be quantified.
23. Government execution was regarded as an important element in reducing over-all United Nations system support costs. While the final decision on the use of this modality rested with Governments, those with the necessary capacity should be encouraged to increase their use of government execution, which would lower support and administrative costs. Some members felt that the transition to government execution could not be achieved rapidly and that it was outside the scope of the discussions of the Working Group.

24. The special arrangements currently in force with the World Bank were supported.
25. At the conclusion of the formal discussions, the Working Group went into a series of informal meetings in order to formulate its decision (attached hereto)*/.
26. In closing the debate members again stressed that the principal focus of these discussions was directed towards over-all reduction in levels of support costs as a whole, to be achieved by increased productivity in UNDP and the Agencies, and one member stated that the 13 per cent formula was a first step in attaining a lower target of e.g. 12 per cent. Several members again underscored the importance of not charging the regular budgets of Agencies with any deficit which might result from reimbursement at the rate of 13 per cent. Others felt that the decision would serve to strengthen the UNDP-Agency partnership and that the 13 per cent formula, coupled with flexibility arrangements, would not result in a need to look to the regular budgets for support. The need to introduce a policy which would spell out more explicitly the definition of the support costs was noted as was the comment of one member that this small step on support costs was only part of larger UNDP-Agency issues to be resolved and that UNDP should initiate further consultations with Agencies on how to reduce over-all support costs as a whole.
27. Members were unanimous in congratulating the Chairman on her guidance and in noting the constructive attitudes of governments, Agencies and the UNDP Administration. The Chairman also praised the spirit of compromise, without which a solution could not have been achieved. She felt that the provision in the decision for ex-post facto reporting of the elements of support costs was the core of potential future results. She cited the universal will of members not to see an increase in the regular budgets of Agencies and said she had confidence that Agencies would absorb the maximum amount of costs within their budgets without increases while working jointly with UNDP and each other in reducing over-all support costs.

*/ See DP/WGOC/32/Add.1