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Agency Support Costs

Report of the Administrator

Summary

In respect of the various aspects of agency support costs dealt with by the Governing Council in its decision 80/44, the Administrator presents in this report proposed guidelines in respect of: (a) application of UNDP support-cost reimbursement arrangements to other similar programmes under the jurisdiction of the Council; (b) support-cost flexibility arrangements; (c) reimbursements related to currency exchange fluctuations; and (d) reimbursements related to executing arrangements and programmes under the authority of the Administrator. Additionally, the Administrator reports on the progress of consultations between UNDP and the agencies on developing a suitable format for ex post facto reporting to the Governing Council on agency support costs. The report is submitted to the Council primarily for action, and the Council's attention is drawn to the Administrator's recommendation contained in paragraph 49.

1. At its twenty-seventh session, the Governing Council, following consideration of the report of the Intergovernmental Working Group on Support Costs, adopted decision 80/44 on various aspects of the question of agency support costs. The Council requested the Administrator to take action in respect of a number of these aspects. The current report sets forth, in the sequence in which the issues are raised in the Council's decision, the action that has been taken in respect of each of these issues.

Application of UNDP support cost reimbursement arrangements to other similar programmes under the jurisdiction of the Governing Council

2. In operative paragraph 2 of decision 80/44, the Governing Council decided that:

"...the following arrangements shall apply to the reimbursement by UNDP of agency support costs for operational activities in respect of the financial years 1982 to 1991 as well as for other similar programmes under the jurisdiction of the Governing Council".^{1/}

3. The Council's reference to "other similar programmes" has been understood to provide for the applicability of UNDP support cost reimbursement arrangements to other programmes of a technical co-operation nature under the jurisdiction of the Governing Council.

4. Programmes^{2/} entrusted to the UNDP for administration include those financed from the Interim Fund for Science and Technology for Development (IFSTD), the United Nations Volunteers Programme (UNV), the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE), Trust Fund for Assistance to Colonial Countries and Peoples, United Nations Special Fund for Land-locked Developing Countries, UNDP Trust Fund for projects financed by the Voluntary Fund for the United Nations Decade for Women, the Energy Account, the Special Measures Fund for the Least Developed Countries, the Trust Fund for Sudano-Sahelian Activities administered by the United Nations Sudano-Sahelian office (UNSO), and the United Nations Capital Development Fund (UNCDF). Of the afore-mentioned funds, the UNCDF and the United Nations Trust Fund for Sudano-Sahelian Activities finance activities primarily of a capital assistance nature and, only to a limited extent, activities of a technical co-operation nature.

^{1/} Official records of the Economic and Social Council, 1980, Supplement No. 12, (E/1980/42/Rev. 1), Chap. XI.

^{2/} The Executive Director of the United Nations Fund for Population Activities (UNFPA) will report separately to the Council regarding response of the UNFPA to decision 80/44.

5. In implementation of the Council's decision, the Administrator will apply, with effect from 1 January 1982, a support cost reimbursement rate of 13 per cent for execution by agencies of activities of a technical co-operation nature. With respect to assistance by executing agencies in the delivery of capital assistance financed by UNCDF and UNSO, it is intended to negotiate with the agencies, through established consultation procedures, a separate percentage rate for reimbursement of support costs.

6. In order to carry out the proposed application of different support cost reimbursement rates for different types of programme activities, UNDP must be able to classify programme activities according to whether they are of a technical co-operation or of a capital assistance nature. For this purpose, UNDP wishes to use definitions which have been agreed on an interagency basis; however, there is as yet no agreement among agencies on such definitions. Relevant to this question is the work undertaken in connexion with expenditure reporting by a Joint Working Party of the Consultative Committee on Substantive Questions (Operational Activities) (CCSQ(OPS)) and the Consultative Committee on Administrative Questions (Financial and Budgetary) (CCAQ(FB)). During its meeting held from 15-19 December 1980, the Joint Working Party discussed proposed definitions of types of United Nations system activities including, inter alia, definitions for technical co-operation, investment oriented activities and capital assistance. Although, agreement (ACC/1981/OP/1) was reached on the broad definition of the types of assistance and activities that constitute "development co-operation activities", the discussion on definitions for the different components of "development co-operation activities" did not produce an agreement. It does not appear that agreement on such definitions will be reached in the near future.

7. As indicated above, for the purposes of reimbursement of support costs to executing agencies, UNDP would require a distinction to be made between these types of programme activities. Under the circumstances, the Administrator would intend to use the relevant definitions discussed at the Joint Working Party, combined with a definition of "pre-investment" activities agreed upon at the Inter-agency Consultative Meeting (IACM) in December 1980. These are as follows:

(a) Technical co-operation including pre-investment activities:

(i) Activities which have the objective of promoting economic and social development and well-being by enhancing human and institutional capacities, primarily in the developing countries, through the transfer, adaptation, mobilization and utilization of skills and technology; and

(ii) Activities that clearly identify, as an objective, the task of collecting, analysing and presenting economic, financial, technical, institutional and social data, in any development sector, in a form which would facilitate decision-making concerning the feasibility of committing an amount of capital for the creation of physical assets, production of goods and services or the development of human and natural resources; and

(b) Capital assistance:

Assistance which has the primary objective of increasing or improving the utilization of the stock of physical capital in a country or region.

8. As an interim measure, pending completion of consultations to be initiated in the fall of this year, the Administrator proposes application of a reimbursement rate of 4 per cent of project expenditures for capital assistance financed by UNCDF and UNSO. Should consultations be completed in 1981 or early 1982, the agreed rate of reimbursement would be applied as from 1 January 1982.

9. Further, in connexion with the application of the different rates of support cost reimbursement for activities of a technical co-operation nature and for capital assistance, it is proposed, also pending completion of consultations with the agencies, to apply, in the case of UNCDF and UNSO projects, the relevant rate to projects as a whole, based on an interpretation of the major emphasis of a project as follows: where the project budget envisages 75 per cent or more of total resources for capital assistance, the rate of reimbursement for the entire project would be 4 per cent; conversely, where the project budget envisages more than 25 per cent of total resources for technical co-operation activities, the rate of reimbursement for the entire project would be 13 per cent. This approach would simplify the administration of support cost reimbursements while maintaining equity as between executing agencies and the funding sources.

10. The agencies were advised of UNDP intentions in this respect and the majority of agencies expressed regret at what they regarded, for capital assistance activities financed by UNCDF and UNSO, as a unilateral departure by UNDP from the terms of Governing Council decision 80/44. UNDP maintained vis-à-vis the agencies that it correctly interpreted the Governing Council's decision and assured the agencies that the reimbursement rate for capital assistance would be applied only to UNCDF and UNSO financed activities and not to activities financed by other resources such as the Indicative Planning Figure (IPF).

Support cost flexibility arrangements

11. In operative paragraph 2(b) of decision 80/44, the Governing Council requested the Administrator to review the arrangements for granting flexibility. Specifically, the Council stated:

"Current arrangements will continue whereby some executing agencies of UNDP-financed programmes are granted flexibility; however, the Administrator shall review these arrangements and recommend to the Council, at its twenty-eighth session, guidelines to be applied, including the ceilings for eligibility".

12. The review of support cost flexibility arrangements was conducted with a view to developing the most equitable approach for all organizations participating in the technical co-operation effort, while bearing in mind the Council's fundamental objective to reduce support costs. As a result of the review, it was concluded that arrangements currently in effect for the granting of flexibility require adjustment in two main areas:

(a) Rectification of the formula under which agencies receive support cost flexibility, i.e., based on a maximum delivery level of \$ 10 million; and

(b) Establishment of formal criteria as to which executing agencies are eligible for support cost flexibility arrangements.

13. With regard to the issue raised in paragraph 12(a) above, it was recognized that under the current formula, agencies may receive full reimbursement of their support costs, regardless of what that amount may represent in terms of percentage of delivery, provided the level of their annual delivery does not exceed \$ 10 million. On reaching an annual delivery level of \$ 10 million, however, reimbursement of support costs would automatically be limited to the normal percentage rate of reimbursement, i.e., as from 1982, to 13 per cent of annual project expenditures. Thus agencies could experience a decrease in support cost reimbursement of such significant proportions that their capacity to adequately support the programme might be severely affected. A formula was therefore sought which would provide maximum support at the earliest stages or lowest levels of technical co-operation programme delivery and gradually reduce, as delivery levels increased, the amounts to be granted under flexibility. The aim was to establish a support cost reimbursement scale by which an executing agency would at no time receive less in total reimbursement for delivering a higher programme level than it received for delivering a lower programme level.

14. The need for establishment of formal criteria as to which executing agencies should be eligible for flexibility arrangements (the issue mentioned in paragraph 12(b) above) arises as a result of the growing number of organizations or organizational units which have or will become executing agencies of UNDP, and to reconcile this positive phenomenon with (a) the basic intent of the Council in providing exceptional supplementary assistance through flexibility arrangements and (b) the objective of both the Governing Council and the General Assembly^{3/} to reduce administrative costs so that more resources are available to meet the assistance requirements of recipient countries. In this connexion, a historical analysis was made to try to establish the original reasons for introducing flexibility arrangements and to estimate the financial implications for UNDP should all current executing agencies be eligible for flexibility arrangements.

15. The concept of flexibility was introduced following a system-wide review during 1957, 1958 and 1959 aimed at determining the amount of support costs to be borne by agencies' regular budget resources as opposed to resources of the Expanded Programme of Technical Assistance (EPTA). In this connexion, the Economic and Social Council (ECOSOC) first adopted resolution 702(XXVI), in operative paragraph 5 of which it recognized "the need for some measure of flexibility...(to be granted to)... agencies with more limited budgets...". This was followed by ECOSOC resolution 737(XXVIII), which modified the flexibility provision by recognizing, in operative paragraph 6, "the need for some measure of flexibility...(to be granted to)... organizations with small budgets or small allocations". It therefore appears that the original intent of the flexibility provision was to provide relief to those agencies which, having low regular budget levels and therefore possessing only marginal flexibility in the deployment of resources, could not absorb to any significant extent the costs related to administering EPTA activities. Equally, application of the regular support cost reimbursement rate to a low level of project expenditures would yield insufficient resources to establish the minimum capacity necessary for an agency to support the programme. It should be noted that the flexibility provision was not available to organizations outside the United Nations system, such as the regional development banks.

16. The historical perspective would therefore lend support to limiting eligibility for support cost flexibility arrangements to (a) organizations of the United Nations system and (b) organizations whose total regular budget resources are limited and whose total level of technical co-operation delivery is inadequate to establish minimum programme support capacity, i.e., where the capacity does not exist within an organization to redeploy resources so as to adequately meet technical co-operation support requirements.

^{3/} General Assembly Resolution 32/197, Annex V, para. 28(d).

17. Under this interpretation, executing agencies would not be considered eligible for flexibility arrangements if they are component parts of the United Nations, financed under the United Nations regular budget and where the United Nations has the flexibility to administer as a whole the UNDP support cost reimbursements received in respect of its component parts. Also excluded from eligibility for flexibility arrangements would be organizations that are not considered part of the United Nations system, such as the regional development banks. To date, neither the regional economic commissions, the United Nations Centre for Human Settlements, the United Nations Centre on Transnational Corporations, nor the regional development banks have submitted requests for support cost flexibility.

18. With regard to the financial implications for UNDP, if the aforementioned interpretation is not accepted and all current executing agencies would be eligible for flexibility arrangements, it is estimated that approximately a net additional amount of \$ 3.3 million per annum, or \$ 16.5 million for the third IPF cycle, would need to be used for reimbursement of support costs. This estimate is based on an assumed annual increase in agency delivery at the same rate as the currently projected growth rate of UNDP resources during the third cycle and application of the revised scale for flexibility arrangements set forth in paragraph 19(b) below. Of these amounts, \$ 2.5 million and \$ 12.5 million pertain, respectively, to estimated flexibility payments in respect of executing agencies that are organizationally part of the United Nations and the balances in respect of organizations that are not part of the United Nations system.

19. Taking into account the considerations expressed in paragraphs 12 through 18 above, the Administrator proposes, for adoption by the Governing Council, the following modifications to support cost flexibility arrangements with effect from 1982:

(a) Eligibility for support cost flexibility arrangements will be limited to executing agencies which are autonomous organizations within the United Nations system; and

(b) Support cost flexibility arrangements may be granted to eligible executing agencies whose levels of annual delivery do not exceed \$20 million, according to the following scale:

(i) Delivery level of \$ 5 million or less: Reimbursement of support costs provided that the total reimbursement to the agency (i.e., 13 per cent of delivery plus flexibility) does not exceed 25 per cent of delivery;

(ii) Delivery level between \$ 5 and \$ 10 million: As in (i) above, but provided that total reimbursement does not exceed 22 per cent of delivery;

(iii) Delivery level between \$ 10 and \$ 15 million: As in (i) above, but provided that total reimbursement does not exceed 19 per cent of delivery; and

(iv) Delivery level between \$ 15 and \$ 20 million: Reimbursement of support costs at levels which provide for a gradual reduction of total support costs reimbursement from a maximum of 19 per cent to a level of 13 per cent of delivery when reaching a delivery level of approximately \$ 20 million. On average, this means that for every increase of \$ 1 million in the level of delivery, the maximum total reimbursement for support costs decreases by approximately 1 per cent of delivery.

20. In the application of the guidelines indicated in paragraph 19(b) above, the Administrator would ensure, as previously indicated, that at no time would an executing agency receive less in total reimbursement for delivering a higher programme level than it received for delivering a lower programme level. It should be understood that this comparison applies to reimbursements received by each agency as its delivery increases, not between agencies delivering similar programme levels, since each agency's request is reviewed in the context of the agency's individual requirements. It is further envisaged that the sliding scale would be periodically reviewed to take into account such factors as inflation.

21. Paragraphs 19 and 20 above detail the Administrator's proposed modifications to current support cost flexibility arrangements. All other aspects of the current arrangements would continue to apply as follows:

(a) Agencies wishing to benefit from the flexibility provisions will continue to submit towards the end of each year their request in respect of requirements for the next year. These requests will contain the same information as currently provided, e.g., total support cost requirements and their composition by categories of expenditure, including staffing tables by categories and grades. Changes in staffing tables will be compared to projected changes of delivery in real terms. Authorization will be granted by the Administrator following negotiations, as necessary, with the agencies; and

(b) Once a flexibility level is authorized, it serves to form, together with the projected support cost earnings on projects, the ceiling for total support cost reimbursement that an agency may receive for that year. Thus, if actual delivery exceeds projected delivery, the amount provided under flexibility is reduced by the amount of reimbursement earned by the agency in respect of the increase in delivery. Should support cost earnings at 13 per cent exceed the request which was based on projected support cost earnings plus flexibility, the higher amount will be paid to the agency, i.e., 13 per cent of project expenditures.

22. The Administrator's proposals for revised support cost flexibility arrangements, as described in paragraphs 18 through 21 above, were discussed with the agencies at the IACM meeting in December 1980. The introduction of a scale of maximum percentage reimbursements related to programme delivery, up to delivery levels of approximately \$ 20 million, generally found favour with the agencies. As regards the proposed criterion for limiting support cost flexibility arrangements to executing agencies which are autonomous organizations within the United Nations system, the United Nations has reviewed the matter and its views are set forth in annex I to this report.

23. The Administrator would appreciate receiving the guidance of the Council on the criterion to be used for eligibility of executing agencies for support cost flexibility arrangements.

Reimbursements related to currency exchange fluctuations

24. The Governing Council, under paragraph 2(e) of decision 80/44, stated the following with respect to reimbursements to executing agencies resulting from currency exchange fluctuations:

"Cases of particular hardship due to currency exchange fluctuations shall be dealt with by the Governing Council on an ad hoc basis; however, the Administrator is requested to recommend to the Council, at its twenty-eighth session, guidelines and procedures to reimburse executing agencies for this purpose".

25. The Council's decision specifies that any reimbursement is to be related to "cases of particular hardship". This has been understood to mean that the provision of financial assistance to executing agencies should be limited to compensation when unusually significant exchange rate fluctuations occur which could jeopardize the agency's capacity to adequately backstop UNDP-financed activities. The compensation envisaged would seem to be suitable for creating a buffer to enable agencies to adjust more gradually to significant exchange rate fluctuations. UNDP has based its approach to the formulation of the required guidelines on these considerations, again bearing in mind the Council's objective of reducing support costs. In this context, it was considered that any formula which would result in reimbursement of support costs to an agency at or above the current rate of 14 per cent of project expenditures would necessarily fail to meet the Council's intent.

26. It is not the degree of exchange rate fluctuations alone that would meet the requirements set by the Council but rather, and primarily, that these fluctuations would cause "particular hardship" for an agency. In this connexion, it would seem fair to take into consideration the relative size of

agencies, i.e., the capacity of a small agency to withstand or absorb decreases in "real" reimbursement terms is less than that of larger agencies, which have more possibilities to redeploy their support resources. Thus it would seem desirable to set different criteria for agencies, for example, whose annual delivery level is \$ 50 million or less and for agencies with a higher level of annual delivery.

27. Combining the principles set forth in paragraphs 25 and 26 above, the Administrator proposes, as the first part of the guidelines, that the following pre-conditions be established for consideration of requests from agencies for compensation in respect of exchange rate fluctuations:

(a) Agencies delivering a programme level of \$ 50 million per annum or less: the currency of the agency's headquarters location must appreciate, between one year and the next, by an average of at least 6 per cent vis-à-vis the US dollar; and

(b) Agencies delivering a programme level over \$ 50 million per annum: the currency of the agency's headquarters location must appreciate, between one year and the next, by an average of at least 10 per cent vis-à-vis the US dollar.

The percentage increases would not be cumulative from year to year and measured against a given base year; rather, each current year would represent the base against which the next year's average annual exchange rate is compared, i.e., a rolling base. The delivery level of \$ 50 million established for the purpose of classifying an agency in category (a) or (b) above would need to be periodically reviewed and adjusted to take into account factors such as inflation. By establishing the afore-mentioned pre-conditions, a simple mechanism is created for triggering possible reimbursement requests by agencies.

28. Once these pre-conditions have been met, the Administrator proposes, as the second part of the guidelines, to take into account the following factors in reviewing agency requests for reimbursement:

(a) Since in many cases the worldwide average annual inflation rate is greater than the average annual inflation rate at agency headquarters locations, agencies receive, as part of their regular support cost reimbursement, an amount which is not related to any increase in delivery in real terms but is strictly due to price increases in field project inputs. This factor would be taken into account in calculating the recommended level of support cost reimbursements resulting from exchange rate fluctuations;

(b) As it cannot be expected that UNDP resources could be used to maintain exchange rates at given levels, it is proposed that the financial burden be shared by UNDP and the agencies in such a way as to permit the agencies to adjust, over a reasonable period of time, to the new exchange rate. Agencies would thus be expected to absorb a given per cent reduction per annum of their support cost reimbursement in real terms: 6 per cent per annum for agencies with up to and including \$ 50 million annual delivery and 10 per cent per annum for agencies with over 50 million annual delivery; and

(c) The recommended level of support cost reimbursement resulting from exchange rate fluctuations may not result in a total support cost reimbursement to an agency above 14 per cent of project expenditures.

29. The Administrator further proposes that all executing agencies, except Governments, be eligible to submit requests and that the guidelines should become effective as of 1982, with 1981 serving as the base year for the calculation of exchange rate compensations.

30. Based on the guidelines set forth in paragraphs 27, 28 and 29 above, the Administrator would review each agency's request with the agency and prepare his recommendations on the level of the ad hoc support cost reimbursement to be made in respect of currency exchange rate fluctuations. The Administrator would then present his recommendations to the Governing Council for decision.

31. The Administrator's proposed guidelines for reimbursements related to currency exchange fluctuations were discussed with agencies during the December 1980 IACM. No agreement, however, could be reached. All agencies that have suffered from the appreciation of the currency of their headquarters location vis-à-vis the United States dollar categorically stated they could not accept the basic UNDP premise that no compensation for losses already sustained had been envisaged by the Governing Council. UNDP reiterated its understanding of the primary objective of decision 80/44 - i.e., to reduce support costs - and that any formula for compensation of exchange losses incurred over the last few years would necessarily result in the reimbursement of total support costs to agencies at a rate considerably in excess of 14 per cent of project expenditures. UNDP emphasized that the burden on UNDP resources to maintain, for example, the Swiss franc rate at 2.40 to the US dollar, as suggested by some agencies, would be untenable. The agencies requested that their views be presented in full to the Governing Council. The summary of these views as expressed at the IACM are set forth in annex II to this report.

32. As to the methodology embodied in the proposed guidelines of the Administrator, most agencies did not object, except for comments made by some agencies that the possible absorption rates of 6 per cent and 10 per cent, respectively, were too high. One agency, however, expressed the view that the methodology could not be considered until the basic premise was clarified.

33. The Administrator would appreciate receiving guidance from the Council in respect of the issues raised in connexion with reimbursements related to currency exchange fluctuations.

Ex-post facto reporting on total agency support costs

34. In paragraph 2(g) of decision 80/44, the Governing Council set forth the information it wished to receive on agency support costs as follows:

"To assist the Governing Council to carry out its responsibilities, each executing agency is requested to provide to the Council, through the Administrator, on an ex-post facto basis, a detailed report showing the elements of support costs incurred in the preceding year in executing operational activities for development; the report should include details on objects of expenditure and the number and grades of staff or staff years involved in the different support activities (recruitment, procurement, placement of fellows, other backstopping); the Administrator, in consultation with the agencies, shall develop a suitable format for the annual report to the Governing Council".

35. Consultation with the agencies was initiated at the December 1980 IACM. The major concern of the agencies was the possible implication that meeting the Governing Council's request for support cost information would entail reintroduction of cost measurement systems. It was reaffirmed, however, that this was not the intention of the Governing Council as evidenced, inter alia, by its request that the Administrator develop a suitable format for the report, in consultation with the agencies. Further, this point had already been recognized by the agencies and UNDP during the September 1980 session of CCAQ(FB), the report of which states that "...the Committee recognized that while the provision had not been intended to require the operation of cost measurement systems - which, as the organizations had indicated in the Governing Council, would not be justified in terms of costs and benefits - it could lead to complications, difficulties and unreasonable expense unless the reports were prepared in a simple practical manner". The report of CCAQ(FB) then went on to say: "Accordingly, the Committee hoped that means could be found through which the organizations could produce the substance of the information requested on the basis of reports otherwise required for management purposes and for reporting to their governing bodies".

36. In view of the above, it was proposed that the following steps be taken by the agencies and UNDP toward developing a suitable format for the report to the Governing Council:

(a) Determine what information is currently available in each agency, in the form of audit, management or any other reports which could produce the substance of the information requested by the Governing Council;

(b) Determine the common denominator(s) among the agencies; and

(c) Develop a related format.

37. In implementation of the first phase of the consultative process described in paragraph 36(a) above, it was agreed at the December IACM that agencies would transmit to UNDP a listing of the kinds of information or data already available to them, together with samples of the reports from which such information could be drawn. As further agreed with the agencies, this information was summarized by UNDP for presentation to the agencies at the March 1981 session of CCAQ(FB).

38. The preliminary information received indicates that considerable disparity exists among agencies in the levels of support cost information readily available. However, agencies are being requested to review the summarization prepared by UNDP to ensure completeness and accuracy. Agencies are further being asked to assist in the identification of common denominators in implementation of the second phase of the consultative process (paragraph 36(b) above). On this basis UNDP would develop a draft format, which would be circulated to the agencies prior to further consultations on this question at the fall 1981 session of CCAQ(FB). A summary of the discussion on this issue at the March 1981 session of CCAQ(FB) will be circulated as an addendum to this report.

39. The Administrator intends to submit to the Governing Council at its twenty-ninth session the proposed format for ex-post facto reporting on support costs. This would permit the agencies to comply with the Governing Council's request for such reports, the first of which are expected in 1983 for agencies on an annual budget cycle and in 1984 for agencies on a biennial budget cycle.

Executing arrangements and programmes under the authority of the Administrator

40. Under operative paragraph 3 of decision 80/44, the Governing Council requested the Administrator:

"...to review arrangements for reimbursing support costs in respect of those executing arrangements and programmes under his authority to which a percentage formula does not currently apply and to make suitable recommendations to the Council at its twenty-eighth session".

41. With regard to the question of programmes and support cost reimbursement arrangements, this issue has been treated in paragraphs 2 through 10 above, in the context of the application of UNDP support cost reimbursement arrangements to "other similar programmes" under the jurisdiction of the Governing Council. "Programmes" as such are viewed from the perspective of being funding sources. Thus, as stated in paragraphs 8 and 9 above, it is proposed that these sources reimburse support costs to executing agencies at the rate of 13 per cent of project expenditures when financing activities of a technical co-operation nature and at the rate of 4 per cent of project expenditures for capital assistance financed by UNCDF and UNSO. Any backstopping provided by programmes to facilitate implementation of their own financed activities are not considered as executing agency functions but rather as forming part of their funding programme management functions, wherein the question of support cost reimbursement does not arise.

42. The term "executing arrangements" has been understood to apply to: (a) backstopping undertaken in the context of executing agency functions and (b) an organization or organizational unit which is different from the organization or organizational unit responsible for the funding of the activities, thus involving a cross-organizational transfer of responsibility for project execution.

43. Under this interpretation, "executing arrangements" under the authority of the Administrator are limited to project execution by the Office for Project Execution (OPE) and those functions of the United Nations Volunteers (UNV) which are of an executing agency nature.

44. OPE executes projects, or parts of projects, financed from, inter alia, UNDP (IPF) resources, UNCDF, UNSO and UNRFNRE. Thus OPE may assist in the delivery of projects of a technical co-operation nature or of a capital assistance nature, for which it would receive support cost reimbursement at the same rates as proposed in paragraphs 8 and 9 above for executing agencies. It is also proposed that the costs actually incurred by OPE be monitored in respect of the programmes for which it executes projects to ensure that an imbalance does not exist between sources of income and the attributable costs related thereto.

45. For the most part, UNV provides volunteers representing one component of a project executed by another agency, e.g., one of the specialized agencies of the United Nations system. In addition, the UNV may execute projects financed from, inter alia, UNDP (IPF) resources. In its role as an executing agency, UNV carries out only activities of a technical co-operation nature.

46. Under present procedures, UNV does not receive support cost reimbursement in respect of the projects it executes, whereas any other executing agency implementing a project with a volunteer component does receive support cost reimbursement in this respect at the agreed percentage rate, i.e., 13 per cent as from 1982. Reimbursement to UNV for carrying out its executing agency functions should be no different from that provided to other executing agencies.

47. The current practice of not reimbursing UNV for support costs in respect of its executing agency functions has a further disadvantage in that the administrative budget for UNV is inflated to compensate for this amount and the amounts reported to the Governing Council on support cost reimbursements payable to executing agencies are understated by the same amount.

48. The Administrator would, therefore, recommend that OPE and UNV in respect of its executing agency functions receive reimbursement of support costs at the standard rates in effect for other executing agencies. Estimates of the amounts of reimbursement will be reflected as income items under the appropriate headings for OPE and UNV respectively and will affect the outcome of the 1982/1983 biennial budget.

Recommendation of the Administrator

49. The Administrator has presented in this report proposed guidelines or, when appropriate, a description of action taken, in respect of the various aspects of agency support costs dealt with by the Governing Council in decision 80/44. In summary, the Administrator recommends that the Governing Council:

- Approve, as an interim measure pending completion of consultations with the agencies, a support cost reimbursement rate of 4 per cent of expenditures in respect of capital assistance projects financed by UNCDF and UNSO as described in paragraphs 8 and 9 above;

- Provide guidance as to the criteria to be used for eligibility of executing agencies for support cost flexibility arrangements;

- Approve the revised scale in respect of support cost flexibility arrangements for eligible executing agencies, as set forth in paragraph 19(b) above;

- Provide guidance as to whether compensation to executing agencies in respect of currency fluctuations should take into account past exchange losses or be provided only in respect of future exchange rate fluctuations;

- Approve the proposed guidelines and procedures for compensation to executing agencies in respect of exchange rate fluctuations as set forth in paragraphs 27 to 30 above;

- Take note of the progress made by UNDP in consultation with the agencies in developing a suitable format for ex post facto reporting to the Governing Council on agency support costs; and

- Approve reimbursement of support costs to OPE and UNV at the same rates as those in effect for other executing agencies and the reflection of estimated support costs earnings as income under their respective sections of the biennial budget.

Programme support costs
Special flexibility arrangements
Statement of United Nations position

1. Programme support costs are partially reimbursed by UNDP to the executing agencies in accordance with a formula which, from 1 January 1982, will be basically 13 per cent of project delivery costs. It has long been recognized by concerned intergovernmental bodies that the UNDP reimbursement percentage does not cover the full costs of providing technical and administrative support to UNDP projects. The agreed level of reimbursement represents a compromise position which is generally acceptable by the larger agencies after taking all factors into consideration. As regards the small agencies, however, it has also been recognized that the execution of a technical co-operation programme requires that a certain basic technical and administrative structure be in place in the agency concerned in order to provide the necessary support services. It was further understood that a reverse economy of scale exists in respect of these agencies and for this reason some flexibility in the level of programme support has for many years been provided to ensure that a basic capacity has been available for support to technical co-operation activities.

2. Thus, in the case of the United Nations, UNCTAD for many years enjoyed the status of a small agency eligible for the flexibility procedures. It was acknowledged that the UNCTAD administrative machinery did not have the capacity for the provision of the required level of services even to its relatively modest programme of technical co-operation without recourse to such procedures. At the same time, it was clear that, given the executing agency status of UNCTAD, the delivery of its technical co-operation programme was a responsibility of UNCTAD to be undertaken from resources available to the Secretary-General of UNCTAD. UNCTAD had no right to require that other executing agencies within the United Nations should provide it with a portion of the programme support resources derived from the delivery of their respective programmes.

3. The regional economic commissions, in terms of resolution 33/202, "have the status of executing agencies, in their own right". As specifically requested by that same resolution, the Secretary-General took the necessary steps to implement that decision; in terms of both the programme and the

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related financing - including support costs - each of the regional commissions is a partner of UNDP, with which it deals directly and not through the central Headquarters machinery. Thus, the regional commissions, like UNCTAD, have responsibilities for the delivery of programmes which are as clearly stated as the responsibilities of the smaller agencies of the United Nations system. No practical possibilities exist for the application to the regional commissions, or to the United Nations Centre for Human Settlements, of the economies of scale which may exist in the programme support infrastructure in New York or Vienna. It is, therefore, the United Nations view that small agency flexibility procedures should be applied to regional commissions, and UNCHS, should their level of project delivery render them eligible.

4. We understand that the view has been expressed that the United Nations, as a large central organization, should be able to administer its programme centrally. The United Nations would wish to point out in this regard that the conferring by the General Assembly of executing agency status on a number of organizational units within the United Nations has granted these units a degree of independent responsibility which does not reconcile easily with the concept of central management. For the United Nations to be responsible for the delivery of the entire United Nations-related UNDP programme, and thus to assume responsibility for the utilization of available programme support resources by the various executing agencies within the United Nations, would directly contradict resolution 33/202 and would turn back the clock to the preceding situation. There would no longer be a direct relationship between UNDP and the organizational units concerned.

5. As regards the views of the legislative bodies concerned, the United Nations would wish to draw attention to the report of the Advisory Committee on Administrative and Budgetary Questions (A/35/544 and Corr. 1), which the General Assembly took note of in resolution 35/217J. Paragraph 14 of that report stated "any recommendation to modify the present arrangements for reimbursement of overhead costs ... would need to take fully into account the position of the executing agencies. In view of its responsibilities under Article 17, paragraph 3 of the Charter, the General Assembly has a central role to play in this regard". Paragraph 7 of the same report noted that "the regional commissions are regarded by UNDP as separate executing agencies and may be considered eligible for the special flexibility arrangements referred to in paragraph 2(b) of Governing Council decision 80/44".

Views expressed by the agencies at the IACM (8-12 December 1980
on the question of reimbursements related to
currency exchange fluctuations

International Telecommunication Union (ITU)

The ITU reiterated that it could not accept the approach proposed by UNDP as it did not recognize the effects on the agency of the loss in purchasing power of staff resources caused by the severe currency fluctuations of the last several years. ITU proposed an alternative formula whereby UNDP should essentially guarantee a given exchange rate, as has been approved by the General Assembly for certain staff entitlements in order to compensate for exchange losses (General Assembly resolution 33/119). In this connexion, the agency suggested that a rate of approximately 2.40 SWF to the dollar may be appropriate. ITU further noted that, under current conditions, although the agency was receiving a higher reimbursement in dollar terms, it was in fact receiving less Swiss francs.

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD, having concerns similar to those of ITU, expressed the view that the approach proposed by UNDP offered some minor compensation for possible future losses but did not address the basic problem of the substantial damages already sustained by agencies in respect of their programme support capabilities. UNCTAD further requested UNDP to inform the Governing Council that this type of approach would not solve the agencies' fundamental problem.

United Nations Industrial Development Organization (UNIDO)

UNIDO maintained that the Governing Council's requirement to treat cases of particular hardship had already been met, in that the agencies are now experiencing particular hardship. UNIDO further considered the term currency "fluctuations" as a misnomer since "fluctuations" referred to changes around a norm, whereas the actual situation was a steady decline of the US dollar. The agency stated that its programme rose in real terms by 30 per cent but, in

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real reimbursement terms, experienced an increased deficit. In its view, continuation of this situation could only lead to self-destruction. Additionally, UNIDO maintained that the possible absorption rate of 10 per cent would cause excessive hardship and in fact believed that agencies should not be expected to absorb anything. UNIDO also expressed the view that a "rolling base" approach was unfair to the agencies.

International Labour Organisation (ILO)

As the framework within which it wished to express its views on the question, the ILO set forth the operative concepts of partnership, efficiency and reasonable equity. As a first and fundamental point, the agency disagreed with the UNDP interpretation of the Governing Council decision and maintained that the Governing Council had not limited the question of reimbursements to current or future exchange rate fluctuations. Therefore, the ILO felt it was difficult to discuss the proposed approach point by point. The agency was convinced that the relevant part of the Governing Council decision was based on the Rhodes report. Between 1973 and 1980, the volume of programme delivery in real terms increased by 43 per cent, staff support decreased by 25 per cent, for a net difference of approximately 70 per cent. The ILO maintained it was impossible for governing bodies to continue to absorb or subsidize programme support to this extent. The agency further pointed out that, in the context of a Swiss franc appreciation of 50 per cent, they would be able to have 40 per cent more staff if they were based in New York; in fact the 14 per cent reimbursement actually equalled 8.5 per cent. The ILO expressed great concern that the problems described above, coupled with the constraints on regular budget growth, would severely affect the quality of support provided.

In response to the view expressed by UNDP that the agencies, and thereafter the Governing Council, had rejected the proposal contained in the Rhodes report of offsetting adjustments (based on cost of living indices and thus involving no additional cost to UNDP) to agency reimbursements, the ILO disagreed with the UNDP interpretation and pointed out that this was not the position of all agencies. With regard to the views expressed by other agencies, the ILO agreed with UNCTAD that the approach proposed by UNDP would yield marginal compensation and further urged UNDP to consider the formula proposed by ITU, negotiating a medium term rate of approximately 2.40 SWF to the dollar. In conclusion, the ILO stated it would be more than happy to receive a 13 per cent reimbursement rate in real terms.

Universal Postal Union (UPU)

UPU supported ITU views on this question. UPU mentioned that, due to currency fluctuations, the reimbursement received under support cost flexibility arrangements currently covered only 50 per cent of its total support costs, whereas 80 per cent would be covered if prior year levels were maintained.

United Nations Educational, Scientific and Cultural Organization (UNESCO)
Intergovernmental Maritime Consultative Organization (IMCO)

Both UNESCO and IMCO joined the concerns expressed by other agencies on this question although, at present, for different reasons, they were not affected by the problem.

United Nations

The United Nations, referring to the discussion on the Rhodes report, reaffirmed the Organization's position that it could not accept the Rhodes formula since it would provide relief to some agencies at the expense of others.

