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POLICY

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

AGENCY SUPPORT COSTS

Support cost reimbursement arrangements for activities
financed by United Nations Capital Development Fund
and United Nations Sudano-Sahelian Office, and
for Office for Projects Execution (UNDP)

Report of the Administrator

Summary

In this report, the Administrator informs the Governing Council that, pursuant to operative paragraph 6 of decision 81/40, he has undertaken a study to determine the support cost rates associated with delivery by UNDP/OPE (Office for Projects Execution) of projects of a technical cooperation nature. As also requested by the Council in operative paragraph 1 of the above decision, the support cost rates related to delivery by the UNDP/OPE of capital assistance and technical cooperation projects financed from the resources of the United Nations Capital Development Fund (UNCDF) and the United Nations Sudano-Sahelian Office (UNSO) were determined in connection with the study. The Administrator draws the Council's attention to the inconclusive consultations held with agencies in respect of the application of these rates to UNCDF and UNSO-financed projects executed by agencies. The Administrator's conclusions and recommendations are contained in paragraphs 11 through 13.

INTRODUCTION

1. At its twenty-eighth session, the Governing Council, by its decision 81/40, paragraph 1 decided "that the support cost reimbursement arrangements being applied at present for capital assistance and technical co-operation activities financed from UNCDF and UNSO resources shall continue pending completion of further consultations between the Administrator and the agencies on a support cost reimbursement formula reflecting the particular support requirements of capital assistance, bearing in mind the desirability of such a formula reflecting previously agreed principles including, inter alia, simplicity and universality of application, as well as the principle set out in paragraph 2(d) of decision 80/44, which provides that, where actual support costs can be identified, no reimbursement in excess of actual costs shall take place".

2. In paragraph 6 of the same decision, the Council with regard to reimbursement of support costs to OPE, approved "... reimbursement of support costs to OPE in respect of executing projects of a technical co-operation nature based on the same rates as those in effect for other executing agencies, within the limits set forth in paragraph 2(d) of decision 80/44 and that the support cost reimbursement for non-UNDP funded projects shall be at a uniform rate limited to that associated with the actual level of support costs of OPE in respect of executing technical co-operation activities".

I. SUPPORT COST STUDY

3. For the purpose of determining the support cost rates to be charged by UNDP/OPE, as well as to provide a basis for determining the rates applicable to UNSO and CDF-financed activities, the Administrator carried out an extensive study of the full OPE support costs, as well as of the cost of delivering various programmes by OPE. This study included the following steps:

(a) The cost of support services provided to OPE by various units in UNDP was determined as part of a general study undertaken by UNDP to identify the cost of headquarters support to all UNDP "non-core" activities. This study was performed in connection with the preparation of the revised 1982-1983 budget estimates and its results provided UNDP with more accurate information on the full cost, both direct and indirect, associated with delivery of programmes executed by UNDP/OPE;

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(b) A time study was undertaken by OPE staff during a three-month period late in 1981 when OPE staff members kept a record of the time spent on various activities divided into main categories: i.e., IPF and cost sharing, CDF, UNSO, UNRFRNRE, and other funds and programmes;

(c) The projects executed by OPE were analyzed on the basis of the main categories and a distinction was made between those projects involving detailed substantive support and those requiring only limited administrative and financial support.

4. The total budgeted cost of OPE - i.e., the cost of staff directly employed by OPE and related common service costs, plus the cost of the services provided by other UNDP organizational units in support of the OPE operations - constitutes the full cost of OPE, and is expected to amount to \$11.3 million in 1982-1983, net of staff assessment. This amount, in turn, has been attributed to the various sources of funds based on the percentage of time spent by OPE staff on each activity. This calculation provided the full support cost relative to each programme's operation.

5. To determine the support cost rate for each of these activities (namely, OPE's delivery of technical co-operation activities, and of UNSO and CDF-financed projects), certain assumptions were made regarding the level of delivery of each programme during the period 1982-1983. The assumed levels of delivery by OPE for 1982-1983 were \$70 million from IPF resources, \$35 million from CDF, and \$15 million from UNSO.

6. Based on the studies carried out by the Administrator, a rate has been determined as reflecting realistically the actual support costs relating to the execution by OPE of projects of a technical co-operation nature. This is indicated below. This analysis also made it possible to determine the support cost rates incurred by OPE in the implementation of UNSO and CDF financed-activities. The rates obtained, all of which are rounded to the nearest percentage point, are as follows:

- (a) For projects financed from IPF and cost-sharing resources, the Programme Reserve and the Special Measures Fund - 11 per cent of delivery;
- (b) For UNSO-financed projects - 11 per cent; and
- (c) For CDF-financed projects - 5 per cent.

7. The study has also confirmed that some projects require only minimal involvement of OPE. These are projects for which UNDP has been formally designated as Executing Agency, but which, in fact, require UNDP/OPE only to

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perform such functions intended to facilitate operations, as setting up an account or exercising some co-ordination. For projects financed by UNDP or other sources, and where OPE has minimal involvement, UNDP would propose that support cost reimbursement be limited to the best estimate of costs incurred by OPE.

II. CONSULTATIONS WITH AGENCIES

8. It will be recalled that paragraph 1 of Governing Council decision 81/40 requested the Administrator to hold further consultations with the agencies on a support cost reimbursement formula for capital and technical assistance activities financed from CDF and UNSO resources. These consultations were held during the fifty-sixth session of the Consultative Committee on Administrative Questions in March 1982.

9. In their review of UNDP's proposed rates for technical and capital assistance projects at this CCAQ (FB) meeting, agencies indicated that the issue of support costs was one that had taken a number of years to resolve and that Governing Council decision 80/44, which represented a culmination of those efforts, called for the application of a single rate for technical co-operation activities financed from all sources of funds. Consequently, they considered that the re-introduction of differential rates was a regrettable step backwards and was inconsistent with a basic principle implied in the standard rates adopted in the Council's decision: that is, the notion that support costs should be regarded overall and as an average. In addition, they questioned the methodology of UNDP's analysis which they considered did not take into account the elements of support costs identified in the CCAQ cost measurement study. They also questioned the logic of applying differential rates for UNCDF and UNSO-financed projects since, they contended, it was found that such projects involved support costs similar to those for technical co-operation activities undertaken by agencies. For these reasons, agencies hoped that UNDP would reconsider its proposed rates which they considered were not valid for them and regarding which they felt UNDP should have consulted with them at an earlier stage.

10. As is evident from this summary of discussions at the CCAQ (FB) meeting, satisfactory conclusions have not been reached and substantial disagreement exists over the principle of differential rates as well as the methodology used in UNDP's study to arrive at the proposed rates. UNDP maintains that capital assistance-type activities are primarily devoted to procurement transactions and, therefore, the actual support costs incurred are, in fact, substantially lower than those associated with technical assistance-type activities, thereby justifying a different support cost reimbursement rate. In addition, UNDP reminded agencies of Governing Council decision 80/44 which under paragraph 2(d) provides that where actual support costs can be

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identified, reimbursement will be limited to that amount. Concerning agencies' questions in connection with UNDP's recent cost study methodology, it should be noted that cost information was gathered on the basis of the agreed list of ACC technical co-operation support cost elements.^{1/} Further, the study of support services related to "non-core" activities, referred to in paragraph 3(a) above, was carried out on the basis of the methodology previously employed by the United Nations in determining the reimbursement due to it for the services it provided to UNDP. This methodology was endorsed by the ACABQ and noted by the General Assembly.

III. CONCLUSION AND RECOMMENDATION

11. The UNDP study on OPE support costs indicated that support cost rates for IPF-funded and CDF-funded projects were approximately 11 per cent and 5 per cent, respectively. Although a rate was calculated for UNSO projects, the data obtained were less conclusive due primarily to the highly varied mix of technical and capital assistance activities requiring different levels of support costs when examined on a project-by-project basis. In spite of the issues and questions raised by agencies, UNDP considers that its conclusions on support cost rates for OPE execution of IPF-funded and CDF-funded projects are quite accurate. However, in view of the difficulties associated in determining a valid rate for UNSO, and since there is substantial disagreement between UNDP and agencies on the results of the recent OPE study, the Administrator would prefer to undertake a further cost study for the purpose of providing a more precise calculation of support costs for UNSO, and of confirming the validity of the 11 per cent rate for IPF-funded technical assistance projects, as well as the 5 per cent rate for CDF-funded activities.

12. In spite of this intention to undertake a further cost study, the Administrator, for the purpose of the revised estimates of the biennial budget for OPE (DP/1982/53) has proposed to apply the 11 per cent rate for OPE delivery of technical co-operation activities and 5 per cent for UNCDF-financed projects. In respect of UNSO-financed projects, the Administrator has requested an appropriation from UNSO resources, which is the estimated cost of OPE support relating to execution of UNSO-financed projects 1982-1983. For other agencies executing UNSO and UNCDF-financed projects, the Administrator proposes to continue the present support cost arrangements pending a definitive conclusion on the support cost rates to be applied.

13. In conclusion, the Administrator, therefore, recommends that the Governing Council take note of this report, and of his intention to carry out a further cost study on support costs related to programmes delivered by OPE. The Administrator will further consult with the executing agencies on his findings and recommendations and report thereon to the Governing Council at its thirtieth session in June 1983.

^{1/} ACC/1979/R.69, Annex VI.

