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BUDGETARY AND FINANCE COMMITTEE

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DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Mr. Finn Norman Christensen (Denmark)

CHAPTER I

MATTERS REFERRED TO THE COMMITTEE BY THE PLENARY

(agenda item 4 (b) (iii))

A. Government Execution

1. For its consideration of the financial implications of this agenda item, the Committee had before it the reports of the Administrator (DP/1982/11 and DP/1982/11/Add.1) providing a descriptive and analytical account of the factors affecting progress in the use or lack of use of the modality of government execution.
2. The Deputy Administrator, in his opening remarks, indicated that it was his understanding that the Committee would discuss only the financial implications of the proposals contained in the reports. He called attention to the recommendation of the Administrator contained in paragraph 41 of document DP/1982/11, which proposed support costs remaining unutilized due to government execution be added to the respective country and intercountry indicative planning figures (IPF). He also called attention to the financial implications resulting from training of government staff, as indicated in paragraph 42 of document DP/1982/11, and to paragraph 46 of the same document, in which it was stated that there was no need in the immediate future to increase UNDP field office staff to meet the requirements resulting from government execution so long as the provisions contained in document DP/1982/11 regarding the assumption of increased responsibilities by Governments in government execution were adequately met.

### Summary of the discussion

3. Many members supported the Administrator's proposal to add on to the IPF that part of the support cost which was not utilized due to government execution. Some members considered the add-on scheme a positive incentive and thought that the proposal was fair and equitable. Other members expressed the opinion that the proposal for an add-on to the IPF was not entirely appropriate and stated that they would prefer to see the savings on support costs returned to UNDP central resources. One member expressed the view that the add-on proposal, rather than being an incentive, in some cases might lead countries to execute projects for which they were not entirely prepared. One member, supported by others, stated that, while he agreed with the proposal to credit IPFs as an add-on with amounts of unutilized support costs, he could not accept that the base for such credit would be 13 per cent, since Governing Council decision 80/44 dealing with support costs related only to executing agencies and not to Governments. Therefore, while he was supportive of the principle of the add-on, he was of the view that the exact rate to serve as the base for reimbursement should be reviewed separately. Another member expressed the view that the amount of add-on to IPFs would be so minimal that perhaps it was not a realistic option. On the other hand, he thought that if the respective savings on support costs or part of those savings were to be used for government execution, their impact would be definitely favourable. Some delegations thought that the administrative and accounting complications connected with the add-on were substantial and could not be justified. One member who supported the Administrator's proposals suggested, that in order to overcome the reservations expressed, the proposals could be adopted for an experimental period of a couple of years.

4. Some members were of the opinion that the Administrator's proposal that a single Government co-ordinating authority be designated to deal with government executed projects was reasonable and should be adopted. On the other hand, other delegations considered that this proposal was likely to create administrative difficulties and was not justified by the fact that the number of government executed projects was small.

### Response of the Administration

5. In his response, the Deputy Administrator explained that the basic requirement for designating a project for government execution was the determination that the Government had the capacity to undertake such an execution. Therefore, he did not

see a risk of Governments undertaking government execution only for the sake of adding the unutilized amounts of support costs to their IPFs. He confirmed that the Governing Council's decision on the rate of support cost reimbursement did not specifically relate to agencies, but added that he did not consider it logical to establish a different rate for Governments. In this connection, he explained that government execution was somewhat comparable to smaller executing agencies in terms of its size. Smaller agencies could benefit from support cost flexibility, which by implication meant that the 13 per cent support cost rate for government execution was reasonable. He also did not foresee any difficulties, technical or otherwise, in implementing the add-on to IPFs and indicated that recent UNDP missions which reviewed with Governments the experience in government execution had revealed that most countries did not particularly insist on reimbursement of administrative costs connected with the execution of projects. This, however, was on the premise that their respective IPFs would be credited with unused support costs.

6. The Deputy Administrator referred to the many decisions which the Council had adopted in past sessions requiring the Administrator to promote government execution. It was therefore incumbent on the Administrator to make reasonable proposals to encourage Governments in a position to do so to use the modality of government execution. The Administrator recognized that the sentiment of the majority of members of the Council last year was against direct compensation being made to Governments and, in fact, UNDP missions to Governments had borne this out. However, he also recognized that additional administrative costs were incurred by Governments in government execution and therefore, in the absence of some form of compensation or incentive, constituted an impediment to an expanded use of this modality. The Administrator's present proposal therefore addressed both of these concerns. The Deputy Administrator further pointed out that it was necessary to consider the proposals as an integrated package. He explained that complications would arise if the add-on rate were other than 13 per cent, since agencies acting as co-operating agencies in government executed projects would continue to receive support costs at the 13 per cent rate.

7. Responding to the concern expressed by some members that certain developing countries with a higher GNP might receive undue advantage from this proposal, the Deputy Administrator stated that, on the basis of some calculations, he estimated that the average add-on to the IPF for countries with GNP per capita of \$1,500 or more, would only be a negligible amount of approximately \$3,000 per annum.

