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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 VI

AGENCY SUPPORT COSTS

1. For its consideration of agenda item 7 (e), the Committee had before it reports of the Administrator concerning support cost reimbursement arrangements for activities financed by the United Nations Capital Development Fund (UNCDF) and the United Nations Sudano-Sahelian Office (UNSO) and for the Office of Project Execution (OPE), United Nations Development Programme (UNDP) (DP/1982/58), ex post facto reporting on agency support costs (DP/1982/59), and support cost flexibility arrangements (DP/1982/93).
2. In introducing the item, the Director, Division of Finance, first referred to the progress achieved in developing, in consultation with the agencies, an acceptable format for ex post facto reports on support costs to be provided to the Governing Council. Details of this format were contained in document DP/1982/59. He emphasized that, although the proposals did not provide the complete range and detail of information requested by the Council in its decision 80/44, it was believed that the format would provide meaningful and useful information for the Governing Council.
3. Turning to the subject of support costs related to delivery by OPE, he referred to the conclusions contained in document DP/1982/58 and to the description of the methodology used by UNDP in formulating proposals for support costs related to OPE delivery of technical co-operation projects, of UNSO-financed projects and of UNCDF-financed projects. After explaining the substantial difference of opinion with agencies on the applied methodology and the conclusions reached, he informed the Committee that the Administrator intended to undertake a revised study of OPE costs and that, in the interim period, OPE would charge 11 per cent as support cost for technical co-operation projects, and 5 per cent for UNCDF-financed projects, while support costs for UNSO projects would be based on ad hoc rates. With regard to projects executed by other executing agencies, the support cost rates for UNSO and UNCDF-financed activities would continue to be established on an ad hoc basis in consultation with the organizations concerned.
4. In connection with support cost flexibility arrangements, he drew attention to document DP/1982/93, which contained data on reimbursements for 1980 and 1981 and

requests for reimbursement for 1982. He also drew attention to the new guidelines on the reimbursement of support cost flexibility which had been provided as an annex to document DP/1982/93.

Summary of the discussion in the Committee

5. Speaking on behalf of the United Nations, the International Labour Organisation (ILO) and the World Health Organization (WHO), the Assistant Secretary-General of the United Nations Office of Financial Services amplified the reasons for the disagreement with the UNDP conclusions which had been expressed in the course of a meeting of the Consultative Committee on Administrative Questions (Financial and Budgetary) (CCAQ) (FB) in March 1982. The agencies considered that the methodology used by UNDP, while appropriate in principle, was not designed to capture the totality of support costs incurred. Furthermore, UNDP had made assumptions on delivery which were not necessarily realistic and these assumptions had influenced the rates. He emphasized, however, that the most important issue was the proposed departure from decision 80/44, which had established an average uniform rate of support costs for all agencies. Introduction of differential rates would be a step backwards and contrary to the basis of the standard rate adopted by the Council. He congratulated UNDP for coming forward with much more comprehensive data on actual support costs incurred and welcomed the proposal to carry out a revised study, which he hoped would serve as a basis for agreement between UNDP and the agencies.

6. One representative, supported by others, commended the Administrator and the agencies for reaching an agreement on the complex subject of ex post facto reporting. They were, however, concerned that the proposed ex post facto report might not be sufficiently detailed to meet all the needs of the Governing Council. He suggested that the Council authorize the submission of reports as proposed in document DP/1982/59 and, following review of the information in the reports to be provided in 1983 and 1984, the Council would then determine whether these reports adequately met its needs. One representative requested that the Administrator include his own comments on the reports submitted by agencies if he considered it necessary to do so. Several delegations expressed disappointment at the contents of paragraph 6 of document DP/1982/59, which suggested that not all agencies could identify their support costs and wondered how they could sustain their claim for higher support costs under such circumstances.

7. On the subject of the OPE support costs study, several members expressed their support for the Administrator's proposal to carry out a revised study in order to ascertain the validity of the previous findings. Some delegations suggested that UNDP should also study the support cost reimbursement systems adopted by several development banks. One representative, while welcoming the lower support costs rates for OPE, expressed the view that the spirit of partnership between agencies should not be lost sight of, that competition between agencies should be on equal terms and that disparity in rates could result in damaging or unhealthy competition. Another member, supported by others, reiterated that his delegation stood firmly behind decision 80/44, paragraph 2 (d), which stated that, where support costs were identifiable, no higher rate should be reimbursed. Several delegations expressed the hope that UNDP would provide more detailed, precise and concrete information on the results of its study on support costs. They considered that the information included in document DP/1982/58 was not sufficiently detailed to support the conclusions. One delegate expressed the view that the rate of 11 per cent resulting from the OPE study of delivery of technical co-operation was unduly high.

8. Delegations expressed appreciation for the Administrator's report on support costs flexibility and the guidelines attached to it. One delegation, supported by many others, expressed serious concern that one agency had requested reimbursement under flexibility provisions, although it had stated that it was unable to identify its support costs expenditures, in particular those support costs relating to the UNDP Programme. These delegations urged that only agencies which were able to provide sufficiently detailed data and documented evidence concerning the actual support costs they incurred for the UNDP Programme should benefit from support cost flexibility arrangements. Some representatives requested assurances that UNDP was monitoring the expenditures incurred by agencies for support costs. Members expressed agreement with the proposal made by the Administration in the course of the discussion, namely, that in the future reports on support costs flexibility arrangements could be incorporated in the annual review of the financial situation, on the understanding that important issues requiring the attention of the Council would be clearly highlighted.

Response of the Administration

9. The Assistant Administrator, Bureau for Finance and Administration, confirmed that the review of the agencies' ex post facto reports in 1983 and 1984 would provide an opportunity to the Governing Council to assess their usefulness. He then explained that, in the view of UNDP, decision 80/44 referred to the reimbursement of support costs for technical co-operation activities and not for capital assistance activities and, therefore, that the issue of a uniform rate did not apply to UNCDF- and UNSO-financed activities. He emphasized that UNDP was reluctantly engaging in a new study of OPE support costs because such a study was time-consuming and expensive. However, UNDP considered that this was an indispensable step in its efforts to reach an agreement with the agencies. He explained that the interim reimbursement rates would be applied until the revised study had been completed.

Recommendation of the Committee

10. The Committee recommends that:

The Governing Council,

1. Takes note of the reports of the Administrator contained in documents DP/1982/58, DP/1982/59 and DP/1982/93;
2. Endorses the arrangements agreed upon between UNDP and the executing agencies for the submission of ex post facto reports on support costs;
3. Decides to review the reports to be submitted in 1983 for agencies which are on an annual budget and in 1984 for agencies which are on biennial budget in order to determine whether these reports meet adequately the requirements of the Governing Council;
4. Agrees with the Administrator's proposal to undertake a further support costs study for the purpose of providing more precise calculations of support costs for UNSO and confirming the validity of the rates proposed in document DP/1982/58 for IPF-funded projects and UNCDF-funded projects;

