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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
projects executed directly by UNDP
(Office for Projects Execution)

Report of the Administrator

Summary

In this report, the Administrator provides the results of a revised study of OPE support costs and support costs associated with the delivery of UNCDF and UNSO projects by OPE. The report further provides details on consultations held with some of the agencies on the subject. The report concludes with the Administrator's recommendations on the reimbursement of support costs to OPE-executed projects, including those financed by UNCDF and UNSO, as well as the handling of support cost reimbursements for UNSO and UNCDF-financed projects, when implemented by agencies other than by OPE.

I. INTRODUCTION AND BACKGROUND

1. At its twenty-eighth session, the Governing Council 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". (Decision 81/40, paragraph 1.)
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".
3. Pursuant to paragraph 2 of decision 81/40, the Administrator carried out a study to determine the support cost rates associated with delivery by UNDP/OPE of technical co-operation projects. Results of the study were submitted to the twenty-ninth session of the Governing Council (DP/1982/58). The study of OPE support costs indicated that the support cost rates for projects funded from national indicative planning figures (IPFs) or from UNCDF were approximately 11 per cent and 5 per cent respectively.
4. Because of the difficulties associated in determining a valid rate for UNSO-funded projects, it was indicated that a further study for the purpose of providing a more precise calculation of support costs for UNSO would be undertaken. It was also pointed out that in view of the disagreement between UNDP and the agencies on the results of the OPE study, a review of the rates established would be made in order to confirm or otherwise determine the validity of rates referred to above for IPF-funded and CDF-funded projects.
5. Based on the discussions of this item at the twenty-ninth session of the Governing Council, and taking into consideration the conclusions and recommendations made by the Administrator in document DP/1982/58, the Council, in decision 82/36, (a) agreed "...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-funded projects and of confirming the validity of the rates proposed in document DP/1982/58 for IPF-funded projects

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and UNCDF-funded projects"; and (b) further requested the Administrator to continue his consultations with the Agencies with a view to reaching an agreed level of support cost reimbursement in respect of UNSO-and UNCDF-financed activities and also to submit a report to the thirtieth session on the results of the study and consultations with the agencies.

II. REVIEW OF OPE SUPPORT COSTS

6. In accordance with decision 82/36, the Administrator carried out a comprehensive review of the 1981/82 study in order to determine the correctness of 11 per cent and 5 per cent support cost rates associated with OPE execution of IPF-funded and CDF-funded projects, respectively, and to determine a support cost rate associated with OPE execution of UNSO-funded activities based on more precise calculations of support costs for UNSO.

7. This exercise was carried out in connexion with a comprehensive management audit and review of the activities of OPE, CDF and UNSO. In particular the review, inter alia, covered:

(a) The methodology adopted in the initial study of OPE support costs;

(b) Classification of projects on the basis of those requiring detailed substantive support, those requiring moderate administrative support and those requiring only minimal administrative support;

(c) Functions and activities of OPE in carrying out project execution in relation to the elements of technical and non-technical support activities contained in the Cost Measurement Study undertaken by CCAQ; and

(d) OPE's actual support services costs for 1980-1982 and actual levels of delivery of each programme (IPF resources, UNSO, CDF and others) during the same period.

8. The results of the review were as follows:

(a) The methodology applied in the initial study was found to be logical. It was based on the time study undertaken by OPE staff during a three-month period late in 1981 when records were kept of the time spent on various activities divided into four main categories: IPF and cost-sharing resources, CDF, UNSO and other sources of funding. A percentage of time spent by OPE staff on each activity was established. During the course of the management audit and review of OPE activities, the time spent and the resulting percentage distribution was reviewed thoroughly; minor adjustments were determined to be needed and have been taken fully into account in the revised calculations.

(b) In the initial study, the projects executed by OPE were analyzed on the basis of the main categories distinguishing between those involving detailed substantive support and those requiring only limited administrative and financial support functions. Sample projects of the various categories

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were again analyzed and the distinction made initially was confirmed. Those projects requiring only limited administrative and financial support by OPE were estimated at approximately 30 per cent of OPE total delivery from IPF and cost sharing. (See footnote (a) to the table below.)

(c) The activities of OPE in relation to the elements of support costs in the CCAQ Cost Measurement Study were reviewed in order to identify more accurately whether the elements of support costs incurred by UNDP/OPE in the execution of projects were comparable to those incurred by other executing agencies. It was determined that certain tasks pertaining to programme planning and IPF-funded project formulation were, in most cases carried out outside OPE and, as such, the related support costs were not reflected in the total OPE support services costs. These aspects have now been taken into consideration and an adjustment of the OPE support cost expenditure has been made.

(d) In the initial study, the estimated full budgeted cost of OPE covering the period 1982-1983 was used. In the fresh calculation the actual costs of OPE (*i.e.*, the cost of staff directly employed by OPE as well as the common services costs including the cost of services provided by other UNDP organizational units in support of OPE operations) covering the period 1980-1982 have been taken into account.

(e) For the purpose of determining the support cost rate for IPF, CDF and UNSO-funded activities executed by OPE, certain assumptions were made in the initial study regarding the level of delivery of each of these programmes for the period 1982-1983. In the fresh calculation, actual programme delivery during the period 1980-1982 has been used.

Fresh calculation

9. In order to review the support cost rates initially determined for IPF-funded and CDF-funded projects and also to establish a support cost rate for UNSO-funded projects, the averages of actual support expenditure and programme delivery for three years, 1980-1982, have been used. The actual support cost expenditure (*i.e.*, total OPE cost plus the cost of associated common services) has been increased by an estimated amount to cover technical support tasks pertaining particularly to programme planning and project formulation that are not carried out by OPE. (See 8(c) above and footnote (b) to the table below.) The total adjusted support cost expenditures for UNDP/OPE project execution amounted to \$16.2 million during the period 1980-1982. Adjusted programme delivery by OPE for the same period under all sources of funds amounted to \$172.3 million. (See footnote (a) to the table below.)

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10. The following table shows programme delivery for each source of fund and related support services costs for the period 1980-1982:

Actual total programme delivery and support services
costs for the period 1980-1982
 (Thousands of dollars)

<u>Source of fund</u>	<u>Actual total programme delivery</u>	<u>Actual total support costs</u>	<u>Rate</u> %
	/a	/b	
IPF	106,953	12,260	11.46
UNSO	20,388	1,624	7.97
UNCDF	37,985	1,799	4.74
Others	6,997	509	7.27
Total	<u>172,323</u>	<u>16,192</u>	<u>9.40</u>

/a Total programme delivery by OPE during the period 1980-1982 amounted to \$218.1 million. This figure has been reduced by \$45.8 million representing the estimated total value of projects identified as requiring limited administrative and financial support by OPE to arrive at an adjusted figure of \$172.3 million.

/b These amounts include \$1.2 million representing the non-OPE technical support input.

11. Therefore, based on the further studies and reviews carried out, the Administrator has confirmed the validity of support cost rates for IPF-funded projects and UNCDF-funded projects of 11 per cent and 5 per cent respectively as recorded in DP/1982/58, and a support cost rate of 8 per cent for UNSO-funded projects has been determined.

III. AGENCY SUPPORT COST REIMBURSEMENT FOR UNSO- AND UNCDF-FINANCED ACTIVITIES

12. Although the Administrator had every intention of presenting full details on the study of OPE support costs to the organizations of the system at the 57th session of the ACC's Consultative Committee on Administrative Questions (CCAQ(FB)) early in March 1983, it did not prove possible, owing to time constraints, to hold this consultation. An oral report, nonetheless, was given on the subject. Subsequently, after the study had been completed, the agencies were invited to an ad hoc meeting at UNDP headquarters on 31 March for an

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exchange of views. In view of the necessarily short notice, however, it proved possible for only a limited number of agencies to participate in this meeting. Notwithstanding, the United Nations and several of the large specialized agencies which were represented at this ad hoc meeting expressed their views on the OPE support costs study.

13. In reviewing the results of the study of OPE support costs, it was agreed by all the participants at the meeting that there were significant differences in the scope and methods of operation as between OPE and Executing Agencies. As a consequence, the support cost rates derived for OPE were not necessarily representative of support costs incurred by agencies in their execution of such projects.

14. Agencies also recalled the position taken by the organizations in recent sessions of CCAQ(FB) which reflected the view that a reintroduction of differentiated agency support cost reimbursement rates (for CDF and UNSO projects) would be a regrettable step backwards. Such a step in their opinion would be inconsistent with a basic principle implied in the standard rate adopted by the Council in decision 80/44: that is, the notion that support costs should be regarded overall and as an average.

IV. CONCLUSIONS AND RECOMMENDATIONS

15. The initial UNDP study on support costs, the results of which were submitted to the twenty-ninth session of the Council (DP/1982/58), indicated that support cost rates for IPF-funded and CDF-funded projects were approximately 11 per cent and 5 per cent respectively. Based on the current, fresh review of OPE support costs, the Administrator confirms that these rates are valid.

16. With regard to UNSO-funded projects, it will be recalled that the Administrator had informed the Council that the data obtained during the initial study were less than conclusive. Based on the current review, however, an OPE support cost rate of 8 per cent has been determined.

17. In view of the foregoing, the Administrator recommends that the reimbursement of support cost rates associated with the execution of projects by UNDP/OPE be established at the following rates:

(a) Eleven per cent for projects financed from IPF and cost-sharing resources, the Special Programme Resources and the Special Measures Fund for the Least Developed Countries;

(b) Five per cent for projects financed from UNCDF resources;

(c) Eight per cent for projects financed from UNSO resources; and

(d) In connexion with projects financed from other sources and which require only minimal involvement of OPE, support cost reimbursement be limited to the best estimates of costs incurred by OPE.

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18. With regard to the reimbursement to Executing Agencies for support costs relating to CDF and UNSO-financed activities, the Administrator proposes to continue present arrangements for the time being. He further proposes to keep this subject under review with the agencies and will report any significant developments to the Governing Council at the appropriate time. The agencies present at the ad hoc meeting concurred with the foregoing proposals by the Administrator.

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