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Policy

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

OTHER MATTERS

Request of the International Telecommunication Union
for additional support cost reimbursement

Note by the Administrator

1. The Administrative Council of the International Telecommunication Union (ITU) has requested the Governing Council to reconsider its decision with regard to ITU's request at the thirty-second session of the Council in June 1985 for additional support cost reimbursement in the amount of \$644,000 covering the years 1980 through 1983.
2. The Council will recall that following its review of ITU's request at that session, it took the following decision:

"The Governing Council,

"having considered information provided by representatives of the International Telecommunication Union and the United Nations Development Programme concerning a request made by the Union for additional reimbursement of support costs relating to activities financed by the Programme,

"Taking into account the observations and comments made by its members thereon,

/...

"Reaffirms its decision 84/31 of 29 June 1984, in paragraph 6 of which it decided that support cost reimbursement to executing agencies, including the International Telecommunication Union, should continue to be made in accordance with the provisions of Governing Council decisions 80/44 of 27 June 1984 and 81/40 of 30 June 1981" (decision 85/43).

3. The Council will also recall that at its thirty-first session in June 1984 it had dealt with a similar request for additional support cost reimbursement by ITU, following which it decided that "support cost reimbursement to executing agencies, including the International Telecommunication Union, should be made in accordance with the provisions of Governing Council decisions 80/44 of 27 June 1980 and 81/40 of 30 June 1981" (decision 84/31).

4. Since ITU has raised essentially the same points that it had brought forward during discussions on this subject at the Council's thirty-second session in 1985, it was thought helpful to reproduce the attached documentation which was provided informally to the Budgetary and Finance Committee at the time. This documentation consists of a letter from the Secretary-General of ITU to the Associate Administrator of UNDP detailing ITU's request for additional support cost reimbursement, contained in Annex I, as well as the Administrator's comments on the request of ITU, contained in Annex II.

Annex I

LETTER DATED 1 MAY 1985 FROM THE SECRETARY-GENERAL
OF ITU ADDRESSED TO THE ASSOCIATE ADMINISTRATOR

In compliance with ITU Administrative Council Resolution No. 916, copy of which was transmitted to you by my letter No. 2008 of 21 May 1984 (copy also attached for ease of reference), I am writing to you once again on the support cost issue. You will note from the above-mentioned Resolution, that I am instructed to continue "negotiations with the UNDP for an agreement of more favourable terms for reimbursement of the administrative and operational service costs incurred as a result of the Union's participation in the UNDP".

At the outset, I would indicate that Resolution No. 916 of the Administrative Council recognizes that "the ITU fully subscribes to the concept of partnership in the technical cooperation programme of the United Nations system."

I will not repeat what I have already provided as information in my letter of 16 May 1984 on the particular constraints under which the ITU operates. However, I wish to stress that the ratio between support costs and programme delivery varies from agency to agency for a number of reasons, such as the scope of the agency's programme provided from its own budget, the cost of servicing the programme, which depends on the location of the agency, currency value to the US dollar, etc. Furthermore, there is no common basis for measurement or evaluation of individual cases, in spite of the numerous studies made so far on the subject. This has been recognized by all the agencies participating in the system and was reported in 1984 to the UN General Assembly by the Director-General of Development and Economic Cooperation. Moreover, under the present ruling, claims for additional reimbursement of support costs submitted by agencies which have been faced with unfavourable conditions of operation for a number of consecutive years cannot be met.

However, before Decisions Nos. 80/44 and 81/40 were adopted by the UNDP Governing Council, the UNDP authorized additional ad hoc reimbursements to the ITU during the period 1973 to 1979 (for each year except 1975) on the grounds of particular hardship.

The ITU Administrative Council, while appreciating the partnership responsibility and fully recognizing Resolution No. 16 of the Plenipotentiary Conference (Nairobi, 1982) considers that the ITU, in view of its present situation, including at present a relatively minor Voluntary Programme, should continue to receive additional reimbursements taking account of the various factors which have been discussed.

Decision No. 84/31 of the UNDP Governing Council was noted with regret within the ITU. During the debate on the Union's request for additional support cost reimbursement by the Budgetary and Finance Committee in June last year, the view was expressed that it was not UNDP's role to meet the totality of an organization's support costs and that consequently the ITU request could not be supported. In this connection it should be noted that the Union provided from its regular budget, during the period 1974 to 1983, direct services in connection with the implementation of projects estimated at some 5.8 million US dollars or 12.6 million Swiss francs.

In 1984 the following factors had an adverse effect on the level of support costs, viz. delivery of UNDP-financed projects by the ITU:

- further reduction in the overall UNDP programme and the consequent decline in ITU delivery from 22.6 million US dollars in 1983 to 19 million US dollars in 1984. Delivery by the ITU of UNDP-financed projects amounted to 33.8 million US dollars in 1981 and decreased to 26.1 million US dollars in 1982;
- decrease in size of a number of projects;
- unfavourable size and distribution of components within projects (experts, equipment, fellowship);
- high percentage of short-term expert missions, because of changing technology and the benefits of development;
- uncertainty of programme activity under the present economic constraints.

In 1984, 24 out of 105 authorized posts paid against the technical Cooperation Budget were kept vacant. In spite of this reduction in staff and the higher rate of exchange of the US dollar against the Swiss franc, the year 1984 ended with a deficit in the 1984 Budget.

The 1984 field delivery by the ITU from all sources amounted to US dollars 23,558,312 comprising:

- \$ 19,057,240 (or 80.9% of the total) financed by the UNDP;
- \$ 4,104,391 financed under Trust Fund;
- \$ 383,948 under the Associate Expert scheme;
- \$12,733 from various other sources.

The above-mentioned delivery produced a support-cost income of a total value of US \$3,205,450 which, converted into Swiss francs, gave 7,621,525 Swiss francs. However, actual expenditure for the provision of support, without taking into account the ITU contribution from its regular budget for direct service support, amounted to 10,039,663 Swiss francs resulting in a deficit of 2,418,138 Swiss francs. This deficit represents the difference between the administrative support provided for the implementation of UNDP-financed projects and the amount actually received from the UNDP as support costs.

Thus, at the end of 1984, the total cumulative deficit in the Technical Cooperation Budget amounted to 6,419,561 Swiss francs, i.e.,

	- <u>Swiss francs</u> -
1980: Excess expenditure	685,818.24
1981: Losses amounting to US \$ 717,583.51 on exchange between the US dollar and the other currencies used were not accepted by UNDP, with the result that the method of posting items to account applied in 1981 for calculating income had to be changed, producing excess expenditure of instead of surplus income of 663,833.07 Swiss francs	1,130,125.73
1982: Excess expenditure	241,416.45
1983: Excess expenditure	1,944,062.05
1984: Excess expenditure	2,418,138.47
	<hr/>
Excess expenditure 1980/1984	6,419,560.94 =====

The projects financed by Trust Funds paid, as in the past, the full cost of direct administrative support provided by the ITU.

It can be reasonably expected that the process which commenced with the work of the Independent Commission for World-Wide Telecommunications Development will have a positive impact on the orientation and acceleration of telecommunication network development for the benefit of industrialized countries and the Third World. In addition, the newly-established Voluntary Programme is receiving increasing attention. Delivery to the various projects is averaging a little more than 1 million Swiss francs per year.

In view of the above, I should be grateful if you would kindly give favourable consideration to the present situation of the ITU and re-submit the request for additional support costs reimbursement to the next session of the UNDP Governing Council and bring to its attention that the ITU:

- suffered during the last decade from the low income received from the UNDP in the form of support costs as a result of a combination of constraints beyond its control:
 - made great efforts to rationalize working methods and to improve the quality of project delivery;
 - reduced the staff paid against the Technical Cooperation Budget to a limit beyond which its operational capacity would be threatened;
 - proved its total adherence to the principle of partnership and has, over the years, absorbed from its regular budget a part of the support costs relating to the implementation of UNDP financed projects;
 - following the last Plenipotentiary Conference (Nairobi 1982) has undertaken concrete actions to adapt its development and technical cooperation activities to the present requirements of the developing world;
 - since 1983 has financed from its regular budget a series of activities from which many UNDP projects benefit, such as advisory expertise, training standards, course development, system specifications in national and regional planning of networks and relative information and evaluation, etc. representing a value of 5 million Swiss francs in 1984.

Your assistance in this matter would be greatly appreciated, and I shall be pleased to provide you with any further information you may require.

Annex 11

COMMENTS OF THE ADMINISTRATOR
ON ITU'S REQUEST FOR ADDITIONAL SUPPORT COST REIMBURSEMENT

Summary background

ITU implements UNDP-financed projects out of its Technical Co-operation Department which is a distinct organizational unit within ITU handling technical co-operation projects. In addition to UNDP-financed projects, this Department handles projects financed under ITU's trust funds, its Associate Expert scheme and other small projects.

ITU reasons for requesting additional support cost reimbursements from UNDP

These may be enumerated as follows from information provided in the letter from the Secretary-General of ITU to the Associate Administrator of UNDP dated 1 May 1985, and from his earlier letter to the Associate Administrator dated 16 May 1984:

1. ITU claims that UNDP-financed projects account for most of the activities in its Technical Co-operation Department and, therefore, UNDP should bear a commensurate share of that Department's total support costs. According to ITU, in 1984, UNDP's share in that Unit's delivery was 80.9 per cent versus its share of 58.8 per cent in that Unit's total support costs;
2. ITU reasons that it does not have a regular technical co-operation programme financed from its regular budget, other than a provision for short-term advisory services on training and technical development and a newly established voluntary programme. Consequently, it cannot realize economies of scale in its support cost expenditures in that area. Furthermore, it states that, being a small organization, it must maintain a minimal establishment to implement a relatively small number of projects, some of which require two to three years of preparatory work;
3. ITU points out that the decline in ITU's delivery of UNDP-financed project (\$US 22.6 million in 1983 versus \$US 19 million in 1984) has caused an accompanying decline in its UNDP support cost income. In addition, ITU cites developments in the type of projects implemented which it considers have an adverse effect on the level of support costs (e. g. decrease in size of projects, unfavourable size and distribution of components within projects, and high percentage of short-term expert missions), as well as uncertainty in programme activity under present economic constraints; and

4. ITU notes that its headquarters location in a high-cost area, and the impact of currency fluctuations of the Swiss franc vis-à-vis the United States dollar also influences its support costs.

UNDP's position

The following points may be mentioned in connection with ITU's request:

1. Governing Council decision 84/31

The Governing Council, having considered the information provided in paragraphs 31 to 39 and annex table 12 of document DP/1984/53, dealt with the same subject last year and decided that "support cost reimbursements to executing agencies, including ITU, should continue to be made in accordance with the provisions of Governing Council decisions 80/44 and 81/40."

2. No relief under any other UNDP support cost provisions

No relief is available to ITU under UNDP's support cost provisions relating either to flexibility or to currency fluctuations (decisions 80/44 and 81/40). The flexibility provisions apply to eligible agencies with year-end delivery under \$US 15 million. ITU's delivery in 1984 was \$US 18.5 million. Additional reimbursement on the basis of currency fluctuations come into play only where the average annual exchange rate of the currency of an agency's headquarters location vis-à-vis the United States dollar fluctuates \pm 11 per cent between one year and the next. Given the strength of the United States dollar in the past year, this cannot be the basis for ITU's present request. In fact, the United States dollar appreciated, on a weighted annual average rate basis, against the Swiss franc by 10.3 per cent between 1983 and 1984.

3. Partnership concept

Most, if not all, executing agencies, including those that have benefited from support cost flexibility, have provided additional financial support either from their regular budget, or from other non-UNDP sources, for their UNDP-financed activities. This has been the rule rather than the exception.

4. ITU support cost waivers

It is noteworthy that ITU has agreed to waive the application of the full 13 per cent support cost rate on certain UNDP-financed projects. From 1982 through 1984 (last three years) the total amount waived amounted to \$US 495,337, as follows:

	<u>1982</u> \$	<u>1983</u> \$	<u>1984</u> \$
Amount waived	154,604	251,021	89,712
No. of waivers granted	2	2	3
Support cost rate waived (and no. of cases involved)	8% (1) 6% (1)	8% (1) 6% (1)	8% (1) 6% (1) 13% (1)

5. ITU resolution No. 16

UNDP's position in this regard is contained in last year's annual review paper (DP/1984/53, p. 19, para. 35). UNDP's interpretation is that resolution No. 16, which was adopted by the ITU Administrative Council at its Plenipotentiary Conference in Nairobi in 1982, does not require that UNDP reimbursements should fully cover ITU's costs in supporting UNDP-financed activities, and does not preclude partial funding of those costs from ITU's regular budget. Furthermore, UNDP has made the point that resolution No. 16 itself "... instructs the Administrative Council ... to take into account the decisions of the Governing Council of the UNDP with regard to support cost payments for the executing agencies when establishing the credits required to cover the total administrative and service costs to be incurred as a result of the Union's participation in the UNDP."

6. Reimbursement to other agencies

As can be seen from the table below, the reimbursement by UNDP to ITU in 1984 was in line with UNDP's reimbursement to other agencies having a delivery level close to that of ITU:

Comparative support cost rates for agencies
 with delivery between \$10-\$25 million in 1984

<u>1984 delivery (thousands of \$US)</u>	<u>Agency</u>	<u>1984 actual support cost rate at which reimbursed</u>	<u>Comments</u>
10 509	UNCHS	13.4	Reimbursable under standard support cost arrangements; not entitled to flexibility
13 187	WHO	13.7	Reimbursable under standard support cost arrangements
11 825	WMO	14.5	Reimbursable under flexibility provisions
18 485	ITU	13.4	Reimbursable under standard support cost arrangements
26 761	ICAO	13.9	Reimbursable under standard support cost arrangements

Appendix

R No. 916 SUPPORT COSTS FOR TECHNICAL COOPERATION ACTIVITIES

The Administrative Council.

considering the purpose of the Union laid out in Article 4 of the International Telecommunication Convention, Nairobi, 1982;

considering further Resolution No. 16 of the Nairobi Plenipotentiary Conference, 1982 which resolved "... that the Union shall continue its full participation in the UNDP ...";

having taken note of the report of the Secretary-General in Document No. 6159/GA39;

recognizing

- a) that the UNDP Governing Council adopted Decision 80/44 and 81/40 which set out the conditions of the reimbursement of support cost to the participating and executing agencies of the United Nations system;
- b) that the ITU fully subscribes to the concept of partnership in the technical cooperation programme of the United Nations system;
- c) that the ITU as an executing agency operates under particular constraints: such as the Union not having a regular programme of technical assistance other than provision of short-term advisory services on training and technical development and recently the establishment of a Voluntary Programme which is not yet fully operational as well as the location of its Headquarters from which Technical Cooperation activities are administered and unfavourable currency fluctuations;

noting the action taken by the Secretary-General to contain administrative costs in the management of technical cooperation activities;

instructs the Secretary-General

- a) to continue to review closely the organization and methods of the Technical Cooperation activities and to rationalize the procedures;
- b) to continue his negotiations with the UNDP for an agreement on more favourable terms for reimbursement of the administrative and operational services costs incurred as a result of the Union's participation in the UNDP;

c) to bring this Resolution to the attention of the UNDP Administrator with the aim of its presentation to the June 1984 Session of the UNDP Governing Council;

d) also to bring the present Resolution to the attention of all Members of the ITU;

invites the Governing Council of the UNDP to reconsider their decisions referred to above, bearing in mind the particular situation of the ITU as outlined in the present Resolution, in determining the level of support costs to the ITU;

invites the Members of the ITU, who are also Members of the Governing Council of UNDP to ensure that their delegation to the June 1984 Session of the Governing Council take duly into account the contents of the present Resolution, so that a more favourable level of support costs to be reimbursed to the ITU be accepted by the UNDP Governing Council.

This Resolution cancels and replaces Resolution 857.

Ref. : Doc. No. 6244/CA39 (1984)