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ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE
TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

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Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

F. Agency support costs - Ex Post Facto report

1. For its consideration of item 9 (f) of the Council's agenda, the Committee had before it the report of the Administrator contained in document DP/1986/65. The Deputy Assistant Administrator and Director of Finance introduced the item by noting that the document represented the second ex post facto report on agency support costs to be submitted to the Council. He referred to a number of the more important findings of the report. While total agency delivery of technical co-operation activities from all sources, including UNDP, remained in 1984-1985 at about the same level as in the previous biennium, the UNDP related delivery during this period decreased by

12.4 per cent. Furthermore, the UNDP percentage share of total agency technical co-operation delivery decreased to 38.2 per cent in 1984-1985 from 43.4 per cent in the previous biennium. At the same time, during this period, total agency technical co-operation delivery from regular programme sources increased by 13.2 per cent and from other extra-budgetary sources by 6 per cent. Since the support cost reimbursement to agencies was directly related to the level of implementation of UNDP-financed projects, the decrease in delivery from UNDP resulted in a reduction of 11.2 per cent in 1984-1985 in UNDP-related support cost earnings. He further noted that the UNDP percentage share of total agency support cost revenue was 30.2 per cent compared to the UNDP percentage share of total agency technical co-operation delivery of 38.2 per cent. In the biennium 1982-1983, the comparative figures were 32.8 per cent versus 43.4 per cent. These ratios indicated that the relative contribution of UNDP to total agency support cost expenditure had been less than its relative contribution to total agency delivery. It was further noted that total agency support cost expenditure from all sources decreased by 3.8 per cent.

2. The Deputy Assistant Administrator concluded by emphasizing the great care needed in interpreting the financial data provided by the agencies. A comparative analysis by agency simply on the data provided could not be considered entirely meaningful. The value of this report appeared to lie in its ability to identify general trends and developments in support cost expenditure.

Summary of the discussion in the Committee

3. Several members stressed that they found it of great importance for the agencies to make proper use of the support cost income earned. In this

connection, a number of members emphasized the importance for executing agencies to encourage the development of a capacity for indigenous development in the recipient country. Several members emphasized the need for recipient Governments and UNDP to resist pressures exerted by agencies together with their counterparts in sectoral ministries. One member considered that Government execution represented a very important and positive development. In this connection, he noted pressure from specialized agencies on sectoral ministries to limit government execution. He underlined the importance of a constructive dialogue in order to encourage recipients to use government execution whenever appropriate. In this regard, he urged that the project approval process should be as efficient as possible. In some cases he noted that Governments might need only partial services, and in such cases he questioned the appropriateness of paying 13 per cent. The member also expressed concern regarding the role of agencies in preparatory missions and the use of IPF resources for agency participation in tripartite reviews and evaluations. A number of members emphasized the importance of ensuring the use by agencies of highly qualified experts, and expressed concern at some experiences in this regard.

4. Many members expressed serious concern about the fact that UNDP was no longer the main source of technical co-operation financing in the United Nations system. One member asked to what extent the decline in the portion financed by UNDP had an impact on the priority given by agencies to the implementation of UNDP-financed projects. He further wondered what the result of this trend was on the capacity of UNDP to co-ordinate technical co-operation activities effectively. Several members expressed an interest in

the measures that could be taken to reinforce the role of UNDP as the central funding organization responsible for technical co-operation and proposed that the Committee should express its concern to the Council on this issue.

5. A number of members noted that the slight drop of 0.5 per cent in total agency technical co-operation activities from all sources in the biennium 1984-1985 was accompanied by a reduction of approximately 3.2 per cent in total support cost expenditure. Members questioned to what extent the reduction in support cost expenditure was due to cost-saving measures and to what extent it was due to fluctuations in exchange rates. A number of members noted that there was a limit to the reductions which agencies could achieve without affecting the quality of the services they provided. On the other hand, several members considered that support cost earnings had not decreased dramatically and that agencies should be able to cope with the present situation. One member urged that further reductions should be possible. One member noted that only the agencies themselves could provide the detailed information that would enable appropriate decisions to be taken regarding support cost levels, and in this respect, urged the agencies to co-operate fully in the provision of such information.

6. Members asked a number of specific questions relating to information provided in the document. Several members noted the wide range in the ratio of support cost expenditures to technical co-operation projects expenditure as reflected in table 5, and wondered why such a wide range existed. One member noted in particular the low figures provided for in respect of the Office for Projects Evaluation (OPE) and requested an explanation for this. Several members referred to table 2 on total agency support cost expenditure from all sources of financing combined by object of expenditure. One member noted the

general increase in contractual services, general operating costs, and furniture and equipment and compared this with the decline in salaries and common staff costs. Two members sought an explanation for the high level of official travel incurred by the United Nations Educational, Scientific and Cultural Organization (UNESCO). Another member wondered whether it would be possible to break down salaries and common staff costs between professional and support staff costs. One member expressed general dissatisfaction with the detail and quality of the information provided by the agencies.

7. One member said that although the report provided an interesting document, it did not indicate that any amendments to existing rules or regulations on support costs were required. In this connection, another member noted the long history of the support cost issue and urged that the subject of the support cost rate not be reopened.

8. The representative from the World Meteorological Organization (WMO) brought before the Committee the issue of the impact of the declining value of the dollar on the support cost earnings of his organization. The problems faced by WMO in this regard represented a problem for the smaller agencies as a whole. By decision 81/40, the Governing Council had adopted a policy with regard to exchange rate fluctuations which dealt only with those agencies not covered by the flexibility arrangements. It was assumed that the flexibility arrangements for the smaller agencies would be sufficient to cope with problems arising from exchange rate fluctuations. As reflected in paragraph 54 of the document, WMO and the smaller agencies now faced a serious situation and the representative requested that the administration of UNDP give consideration to the problem that had developed.

Response of the Administration

9. The Deputy Assistant Administrator and Director of Finance noted that the discussion two years ago had been limited to rather technical issues and had been short. He thanked members for the important and interesting range of issues which had been raised during the course of the discussion. He stated that the comments and recommendations of members would be given serious attention by the Administrator. With respect to the role of executing agencies, he expressed sympathy with the comments made by members while at the same time stressing the responsibility of recipient Governments to ensure the delivery of an effective programme. Regarding Government execution, he noted that in some countries it was highly appropriate and had been very successful, though it had proved less successful and less appropriate in others.

Regarding comments concerning the quality of services provided by agencies, he noted that the provision of a quality programme was a top UNDP priority.

10. The Deputy Assistant Administrator then referred to a number of the specific questions raised. With respect to the wide range in the support cost expenditures reported, he re-emphasized the need to treat the figures with great caution. It was not possible at this stage to give a full explanation of all the figures provided by the agencies. Regarding the OPE rate, he noted that this was explained by the particular mix of services provided by UNDP/OPE, which fell short of the full execution of projects as traditionally provided by the agencies and which had formed the basis for the 13 per cent rate. Regarding the decline in salaries and common staff costs, he noted the sizable increase in contractual services, which reflected the shift over time from long-term experts to short-term experts and consultancies. With regard to the suggestion to break down salaries and common staff costs between

professional and support staff, he noted the difficulties of trying to identify staff specifically servicing UNDP-financed projects. He confirmed that exchange rate fluctuations had contributed to the reduction in support cost expenditures but stated it was not possible to quantify this.

11. The Deputy Assistant Administrator reviewed the long history of the support cost issue and noted that the 13 per cent rate was a compromise and a combined rate. He noted that from the UNDP point of view, the crucial point was that, while agencies received 13 per cent from UNDP on UNDP-financed projects, the overall ratio of total support cost expenditure to total technical co-operation projects expenditure for the agencies was 17.6 per cent. He considered that it would not be productive to reopen the overall issue of the support cost rate. The Deputy Assistant Administrator shared the concern expressed by members regarding the decrease in the UNDP-financed portion of agency technical co-operation activity.

