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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Other matters

REQUEST FOR EXTENSION OF THE PROVISIONS OF PARAGRAPH 2 (c)
OF GOVERNING COUNCIL DECISION 80/44 OF 27 JUNE 1980 TO THE
YEARS 1987-1991

Note by the Administrator

1. Attached is a letter addressed to the Administrator from the Chairman of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) which contains a request to the Council to extend the provisions of paragraph 2 (c) of Governing Council decision 80/44 to the years 1987-1991.
2. Also annexed is a table and notes prepared by UNDP showing the approximate additional amount of support-cost reimbursement which would be payable to the executing agencies in 1987 if the Council were to agree to the proposed extension of the provisions of paragraph 2 (c) of decision 80/44 as requested.

21 May 1987

Dear Mr. Draper,

Reimbursement by UNDP to executing agencies in respect of costs incurred by them for the support of programmes financed by UNDP is, as you know, regulated at present by decision 80/44 of the Governing Council, taken on 27 June 1980 and subsequently endorsed by the Economic and Social Council and noted with approval by the General Assembly. Under this decision, the rate of reimbursement, previously set at 14 per cent of annual project expenditures, was changed to 13 per cent of such expenditures for the financial years 1982-1991, subject to flexibility and other special arrangements and to upper and lower limits on actual payments. As regards some of these limits, operative paragraph 2 (c) of the decision stipulates that "no executing agency shall receive for each of the years 1982 to 1986, under the new formula, less reimbursement in United States dollars than the amount received for 1981 unless 14 per cent of the amount of actual programme expenditures itself would produce a lower amount; in such an event, the latter amount shall serve as the upper limit of reimbursement".

This provision reflects an expectation, shared by the Governing Council and by executing agencies at the time of the decision, that there would be continuing growth in programmes financed by UNDP, so that programme delivery after the end of the five-year transitional period 1982-1986 would generate annual support-cost reimbursements at least equivalent, on the whole, to reimbursements in respect of 1981, in spite of the change in the rate.

It also seemed at the time of the decision that executing agencies already doing so would continue to be in a position to provide supplementary resources under their regular budget appropriations at a level sufficient to cover the remainder of expenses essential for the technical and administrative backstopping of programmes financed by UNDP. The concern of the Governing Council in this connection, as set out in the final preambular paragraph of the decision, was in fact that the overall level of the support costs reimbursed "should be reduced without causing an increase in the regular budgets".

These expectations have not been borne out by the events.

(a) Figures for actual 1986 and projected 1987 programme delivery fall below the level of 1981 for a large majority of the executing agencies concerned, even in nominal dollar terms; in real terms the decrease is even more significant. It means among other things that expected economies of scale have not been realized. The overall evolution has been analysed and findings communicated to the Governing

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Council. I would like to draw attention on this occasion only to the more demanding, complex and costly nature of the support operations that are now required to enable generally more sophisticated and dynamic programme activities to be delivered with the requisite effectiveness.

(b) Executing agencies that have traditionally provided budgetary subsidies to complement their support-cost earnings are becoming less able to do so. For some time, in keeping with concerns expressed by the Governing Council, and in accordance with policies of budgetary stringency widely adopted by governing bodies, they have been engaged in reducing costs and improving efficiency by all available means. Meanwhile, as a result of shortfalls in receipts of assessed contributions, aggravated in some cases by adverse exchange-rate movements of major proportions, a number of executing agencies have been confronted with a financial crisis in which regular budget allotments, including those for support operations, have had to be further curtailed.

On the initiative of executing agencies particularly affected by these problems, the question of support-cost reimbursement by UNDP was discussed by senior financial officers of the organizations of the United Nations system at the last session of the Consultative Committee on Administrative Questions on financial and budgetary questions (CCAQ (FB)), held from 30 March to 3 April 1987. CCAQ (FB) proposed that the executive heads of the organizations, meeting in the Administrative Committee on Co-ordination (ACC), should raise with their colleague, the Administrator of UNDP, the possibility of extending for a further five-year period, from 1987 to 1991, the minimum arrangement foreseen in operative paragraph 2 (c) of decision 80/44. It was considered that this would in some measure assist many of the agencies facing severe financial difficulties in providing back-up services for UNDP-financed projects.

At its first regular session of 1987 (22-23 April 1987), ACC adopted the following decision (No. 1987/8):

In the light of the severe financial difficulties confronted by the organizations of the United Nations system in providing back-up services for projects financed by the United Nations Development Programme, the Committee invited the Administrator of the Programme to consider bringing to the attention of the Governing Council the requests of the executing agencies that it examine the possibility of extending for a further five-year period (1987-1991) the minimum arrangement foreseen in subparagraph 2 (c) of its decision 80/44.

This invitation was naturally put forward without prejudice to the special arrangements in respect of currency exchange fluctuations which were approved by the Council under the provisions of decision 81/40.

I have the honour of requesting your good offices in this matter vis-à-vis the Governing Council. I believe the Council will agree that there is good justification for the financial input involved, in the absence of which delivery of programmes financed by UNDP could not be maintained at the standard of quality and quantity that both donor and recipient countries have the right to expect.

Yours sincerely,

Franz von MUTIUS
Assistant Director-General,
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Chairman, CCAQ (FB)

Annex

1. The attached table indicates which agencies in 1986 benefited from the provision of paragraph 2 (c) of decision 80/44 and which agencies, based on their own latest forecasts of UNDP-financed project expenditure in 1987 received by UNDP, would stand to benefit from an extension of this provision in 1987.

2. The table shows that:

(a) In 1986, the agencies which received support-cost reimbursement at 14 per cent as a result of this provision were:

Economic Commission for Africa (ECA);

Economic Commission for Europe (ECE);

Economic Commission for Latin America and the Caribbean (ECLAC);

United Nations Conference on Trade and Development (UNCTAD);

International Labour Organisation (ILO);

Food and Agriculture Organization of the United Nations (FAO);

United Nations Educational, Scientific and Cultural Organization (UNESCO);

International Civil Aviation Organization (ICAO);

World Health Organization (WHO); and

International Telecommunication Union (ITU);

UNIDO would receive the same level of reimbursement (approximately \$9.8 million) as it received in 1981;

(b) In 1987, the agencies which would receive support-cost reimbursement at 14 per cent of this provision would be the same agencies as listed in (a) above, plus Economic and Social Commission for Western Asia (ESCWA) and UNIDO, and that the United Nations Department of Technical Co-operation for Development (DTCD) would receive the same level of reimbursement (approximately \$12.81 million) as it received in 1981.

3. As indicated in the last column of the table, the additional support costs which would be payable in 1987 if the provision were to be extended can be estimated at approximately \$3.55 million.

4. The figures shown in the table for 1986 and 1987 are approximate, in that they do not take account of the effect of waivers of support costs on specific projects which agencies may have agreed to, nor of the effect of expenditure against government cash counterpart contributions for which the standard rate is 3.5 per cent.

Analysis of agency support-cost reimbursement at standard rates a/ b/

(In millions of United States dollars)

Agency	1981		1986			1987			Additional reimbursement in 1987 d/
	Exp.	14%	Exp.	13%	14%	Exp. c/	13%	14%	
United Nations									
DTCD	92.2	12.81* (1987)	101.3	13.17*	14.18	98.4	12.79	13.78	0.02
ECA	7.9	1.10	4.7	0.61	0.66*	3.9 e/	0.51	0.55*	0.04
ECE	0.9	0.12	0.3	0.04	0.04*	0.3 e/	0.04	0.04*	-
ECLAC	2.1	0.30	1.4	0.18	0.20*	1.1	0.14	0.15*	0.01
ESCWA	0.5	0.06	0.5	0.071*	0.076	0.4	0.05	0.06*	0.01
ESCAP	5.2	0.68	7.6	0.99*	1.06	8.1 e/	1.05*	1.13	-
UNIDO	67.3	9.38* (1986)	71.6	9.31	10.02	65.0	8.45	9.10*	0.65
UNCTAD	17.1	2.39	7.9	1.03	1.11*	8.0	1.04	1.12*	0.08
UNCHS	11.0	1.54	12.7	1.65*	1.78	12.4	1.61*	1.74	-
ILO	54.2	7.55	45.7	5.94	6.40*	46.0	5.98	6.44*	0.46
FAO	188.9	25.04	128.7	16.73	18.02*	128.0	16.64	17.92*	1.28
UNESCO	52.3	7.29	35.1	4.56	4.91*	37.8	4.91	5.29*	0.38
ICAO	39.9	5.57	35.5	4.62	4.97*	34.6	4.49	4.84*	0.35
WHO	23.6	3.30	14.8	1.92	2.07*	16.2	2.11	2.27*	0.16
ITU	32.4	4.37	22.6	2.94	3.16*	11.5	1.50	1.61*	<u>0.11</u>
									<u>3.55</u>

a/ Table excludes agencies entitled to flexibility payments, agencies to which standard rates do not apply (World Bank, Office for Project Execution (OPE) and Governments), International Finance Corporation (IFC) and development banks. Expenditure relates to indicative planning figures (IPF), cost-sharing, Special Programme Resources (SPR), Special Industrial Services (SIS) and the Special Measures Fund for least developed countries (SMP/LDC).

b/ Asterisk indicates amount reimbursable on application of paragraph 2 (c), decision 80/44, for 1986 and 1987.

c/ 1987 expenditure as forecast in February 1987, unless otherwise indicated.

d/ Represents for UN/DTCD difference between reimbursement in 1981 and 13 per cent on 1987 expenditure, and for other agencies (asterisked), difference between 14 per cent and 13 per cent on 1987 expenditure.

e/ 1987 expenditure as forecast in October 1986.

