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BUDGETARY AND FINANCE COMMITTEE
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Item 10 of the agenda of the Budgetary
and Finance Committee

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

Draft report of the Budgetary and Finance Committee

Rapporteur: Mr. Hans Olsson (Sweden)

Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

G.2. Request for reimbursement of additional support costs

1. For its consideration of the three requests for additional support-cost reimbursement included under item 9 (a) and (g) of the Council's agenda, the Committee had before it the following documents:

(a) Note by the Administrator concerning the 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 (DP/1987/69);

(b) Note by the Administrator regarding the request of the United Nations Industrial Development Organization (UNIDO) for additional reimbursement of support costs (DP/1987/68); and

(c) Report of the Administrator on the Annual Review of the Financial Situation, 1986 (DP/1987/54) and its appendix, which contained the request by the World Meteorological Organization (WMO) for additional support-cost reimbursement.

2. The Associate Administrator introduced the item by explaining the three distinct requests and the views of the UNDP Administration on each of them.
3. The request submitted by the Chairman of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ (FB)) on behalf of the major executing agencies concerned the extension of the provisions of paragraph 2 (c) of decision 80/44 to the fourth programming cycle. These provisions provided a minimum base of reimbursement, equivalent to the amount received in 1981, or 14 per cent of programme delivery, whichever was the lower, in order to mitigate the difficulties which agencies might face as a result of a reduction in the rate of support-cost reimbursement from 14 per cent to 13 per cent, beginning in 1982.
4. UNDP agreed with the view expressed in the letter received from the Chairman of CCAQ (FB) that when the Council adopted decision 80/44 there had been an expectation that by 1987 programme delivery would have increased to levels which would have made the provisions of paragraph 2 (c) irrelevant. That expectation had, however, not been fulfilled. Even in 1987, based on expenditure forecasts received from the agencies concerned, all but three agencies would still have delivery levels which, at 14 per cent, would earn them less than their 1981 support-cost income. UNDP was aware of the very severe financial difficulties confronting the agencies and was extremely concerned at the harmful effect these could have on the effective delivery of UNDP-financed programmes. It believed, therefore, that that request deserved the Council's sympathetic consideration.
5. The request submitted by UNIDO was based on the provisions in paragraph 5 (a) of decision 81/40 of 30 June 1981, which allowed an agency to request support-cost reimbursement up to a maximum of 14 per cent of delivery, provided that the currency of its headquarters location had appreciated against the United States dollar by at least 11 per cent compared to the previous year. The Associate Administrator confirmed UNDP support for the UNIDO request, since it was fully in accordance with the conditions set by the Council in its decision 81/40.
6. The request submitted by WMO was for reimbursement of additional support-costs based on the severe effects of the appreciation of the Swiss franc against the United States dollar. The appendix to document DP/1987/54 contained a detailed presentation of the reasons for the request. Paragraph 45 of that document reflected the general UNDP view of the matter, namely that it was reluctant to recommend to the Council that an exception be made for one agency alone to the principles established by the Council in 1981 for all the smaller agencies.

I. REQUEST SUBMITTED BY UNIDO

Summary of the discussion in the Committee

7. A representative of UNIDO briefly outlined the background of the request and confirmed that despite the efforts made by the organization to reduce operating costs, UNIDO still faced severe financial difficulties caused mainly by the currency fluctuations in recent years. The representative reiterated the wish of UNIDO to invoke the rule contained in the provisions of paragraph 5 (a) of decision

81/40 in order to minimize such difficulties and requested the Committee's favourable consideration of the request. He pointed out that indicative planning figures (IPFs) would not be affected by the payment of support-cost reimbursement, since such costs are charged to UNDP resources on a separate line.

8. Most members of the Committee expressed their support for the UNIDO request for additional support-cost reimbursement for the year 1986, since they were satisfied that the conditions required by the provisions of paragraph 5 (a) of decision 81/40 had been met.

9. One member, however, pointed out that questions concerning support-cost reimbursement should be carefully reviewed in relation to the entire picture of support-cost arrangements and stressed that the circumstances affecting agencies had greatly changed since the existing system was established, in particular the agencies' overall share of programme delivery had declined.

10. One member asked whether, under the present system, it was possible to make reverse adjustments if the United States dollar subsequently appreciated against currencies of agency headquarters locations. The Associate Administrator replied to this question by referring to paragraph 5 (b) and (d) of decision 81/40, which provided for such reverse adjustments to be made once agencies had availed themselves of the provisions of paragraph 5 (a). The representative of UNIDO confirmed his awareness of these provisions and his organization's preparedness to follow them if and when future currency fluctuations made them applicable.

II. REQUEST SUBMITTED BY THE CHAIRMAN OF CCAQ (FB)

Summary of the discussion in the Committee

11. On behalf of the major agencies executing UNDP-financed programmes, the Controller of the United Nations, in his capacity as Chairman-elect of CCAQ (FB), requested that the Council give sympathetic consideration to the proposal to extend the provisions of paragraph 2 (c) of decision 80/44, for the reasons given in the letter received by UNDP from CCAQ (FB) and supported by the Associate Administrator. A representative of the International Telecommunication Union (ITU) referred to the severe effects of exchange rate fluctuations on his organization and urged support for the proposal, which would certainly alleviate to some degree the current difficulties of ITU.

12. Several members considered that in view of the limited time they had had to review the document and the fact that the subject-matter was of a fairly complex nature, requiring careful consideration of important issues, the initial round of discussion should be limited to a preliminary exchange of general views on the matter.

13. Several members expressed the view that the five-year period 1982-1986 had been a sufficiently long transitional period for agencies to adjust to changing circumstances and accordingly were not in favour of simply extending a formula that had been extended only to provide temporary relief. They were reluctant to change the decisions reached in 1980 and 1981 and to consider the possibility that

14 per cent could remain the basis of reimbursement until 1991. It was noted that for nearly all agencies the amounts involved were in any case not very significant.

14. One member recognized that in 1981 the agencies had expected an increase both in their delivery of UNDP-financed programmes and in their regular budgets, but that such increases had not yet occurred. Recognizing, too, that even 14 per cent did not cover the actual support costs incurred, he was sympathetic to the proposal.

15. Another member pointed out that the rates of 13 per cent or 14 per cent were in a sense arbitrary and that if it were possible to verify the level of actual costs involved it might be possible to agree to some other level of reimbursement. Agencies, however, could not expect to be guaranteed a minimum level of support-cost income unrelated to actual costs.

Response of the Administration

16. In response to the questions raised, the Associate Administrator reaffirmed UNDP support for the proposal, which had been submitted after extensive discussion of the serious financial difficulties of the agencies at the Administrative Committee on Co-ordination (ACC) in April 1987. He stated that as the funding organization, the prime interest of UNDP in the matter was the proper and effective execution of its projects and considered that the relatively small amounts involved were worth paying if such additional funding could enhance the quality of UNDP-financed projects executed by agencies. He referred to the sharp decline which had taken place since 1981 in agency delivery levels and the cut-backs in growth assumptions which had had to be imposed. He emphasized that the reason UNDP supported the extension of the transitional arrangements applicable to 1986, was not because five years was not long enough as a transitional period, but because it was now prudent to do so in the interests of the UNDP programme.

Further discussion in the Committee

17. Most members reiterated the concerns expressed in the course of their initial discussion of the issue. It was stressed that maintaining the arrangements which guaranteed a minimum base of support-cost reimbursement to agencies would not provide a long-term solution to the problems that agencies were now facing. It was accordingly concluded that the proposed extension should not be approved.

III. REQUEST BY WMO

Summary of the discussion in the Committee

18. The representative of WMO explained that WMO sought a change in the existing procedures for flexibility arrangements which would more adequately address the problems brought about by exchange rate fluctuations. Such a change should apply to all smaller agencies entitled to flexibility and should provide more stability by averaging out the effect of exchange fluctuations on support-cost income so that in the longer term it would not result in an overall increase in the charge to UNDP resources for such support costs. He summarized the background to the decisions taken by the Council in 1980 and 1981, pointing out that the assumption made in

decision 81/40, that the flexibility provisions would adequately protect the smaller agencies from the effect of exchange rate fluctuations, had not proved to be valid. He pointed out that during the years 1981 to 1985, when the United States dollar had been relatively strong vis-à-vis the Swiss franc, WMO had been reimbursed much less than the maximum amounts allowable under the flexibility formula. In 1986, however, when the United States dollar had weakened, the amount of dollars received was inadequate to meet the costs involved, which were mostly in Swiss francs, resulting in a deficit of approximately \$500,000. A further deficit of approximately \$800,000 was expected in 1987.

19. The representative of WMO further explained that WMO had made every effort to keep support costs to a minimum, but that he was concerned at the negative effect the present reimbursement arrangements could have on the organization's capacity to execute projects effectively. He proposed that the problem of exchange rate fluctuations for the agencies entitled to flexibility arrangements could best be addressed by establishing an exchange rate index, based on a long-term average exchange rate divided by the actual exchange rate for a given year. Each year the dollar value of the entitlement to support-cost reimbursement would be multiplied by this index to arrive at the amount payable. He believed that the long-term effect of that system would be near zero. He referred to the decision taken by the WMO Congress in May 1987 which requested the WMO Secretary-General to continue his efforts to obtain some compensation from UNDP for currency fluctuations and urged UNDP to reassess support costs for projects administered by WMO.

20. Several members requested clarification as to whether the request pertained only to WMO or agencies under the flexibility arrangements in general. If the latter was the case, they requested more detailed information regarding the other smaller agencies. Several members indicated that decision 81/40 appeared to assume that the flexibility arrangements for the smaller agencies would be sufficient to cope with problems arising from exchange rate fluctuations. They expressed the view that although the difficulties faced by WMO were recognized, it would not be appropriate to reopen discussion on the issue, nor approve an exception to the rule only for WMO.

21. One member sought further clarification as to why the costs of technical backstopping were charged to the regular budget of WMO and had therefore not been included in the amounts reported to UNDP as actual support costs incurred. In this connection, the representative of WMO explained that that was in accordance with the policy established by the WMO Congress and its Executive Council. One member wondered whether it was necessary for the Council to be asked to review the matter if it was simply a question of WMO having failed to report costs to UNDP which could have increased the amount of support costs reimbursed in previous years in accordance with existing arrangements. Another member requested the reaction of UNDP to the possibility of making a retroactive adjustment in respect of several prior years to the amounts reimbursable to WMO.

22. Some members reaffirmed their view that individual exceptions to the policies established for flexibility arrangements for the ten-year period to 1991 should not be considered unless a comprehensive review demonstrated that there were fundamental deficiencies in the existing system and that they would prefer to regard the nature of the WMO problem as a technical one.

Response of the Administration

23. The Associate Administrator stated in regard to the flexibility arrangements established in 1981 that they did take into account the effects of currency fluctuations on the smaller agencies, but the question was whether the caps imposed at that time were reasonable, particularly in the light of the drastic currency revaluations which had occurred since that time.

24. With regard to the possibility of making a retroactive adjustment of the support costs which could be claimed by WMO, he explained that the Administration was authorized to reimburse the smaller agencies on an annual basis and to report these reimbursements annually to the Council, but that it did not have the authority to undertake a multi-year analysis of prior year claims for the purpose of making a retroactive adjustment. If authorized by the Council to do so, however, the Administration could review information relating to support costs in prior years and make an appropriate adjustment to the amount of reimbursement paid.

Recommendations of the Committee

25. Following its discussions of these subjects, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

I

Having considered the note by the Administrator on the request presented by the United Nations Industrial Development Organization (DP/1987/68),

Noting that the average annual exchange rate of the United Nations Industrial Development Organization headquarters location had appreciated by more than 11 per cent vis-à-vis the United States dollar between 1985 and 1986.

Authorizes the Administrator to reimburse the United Nations Industrial Development Organization for its support costs in the year 1986 on the basis of 14 per cent of its project delivery of UNDP-financed projects in that year, in accordance with the provisions of paragraph 5 (a) of decision 81/40 of 30 June 1981;

II

Having taken note of the 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, contained in document DP/1987/69,

Taking into account the views expressed by members of the Council in the course of their discussion of this subject,

Noting that the provisions of paragraph 2 (c) of decision 80/44 were intended to provide temporary relief to executing agencies during a transitional period of five years,

Decides that the provisions of paragraph 2 (c) of decision 80/44 shall remain unchanged and accordingly shall not apply to the years 1987 to 1991;

III

Having considered the request by the World Meteorological Organization for additional support-cost reimbursement for the years 1981-1986, contained as an appendix in document DP/1987/54 and the comments made thereon by the Administrator in paragraphs 40 to 45 of that document, as well as those of the representative of the World Meteorological Organization,

Taking into account the views expressed by members of the Council in the course of their discussion of this subject,

Noting that according to the presentation of the World Meteorological Organization, the amounts reported to the United Nations Development Programme by the World Meteorological Organization in previous years as actual support costs incurred in respect of United Nations Development Programme-financed projects excluded some costs allowable for reimbursement in accordance with the established United Nations Development Programme arrangements,

Reaffirming its decisions 80/44 and 81/40 on agency support costs,

1. Invites the Administration of the World Meteorological Organization to prepare, if necessary, a financial statement showing for each of the years 1984-1986: (a) the total actual support costs, including technical support costs, incurred by the World Meteorological Organization in respect of United Nations Development Programme-financed projects; (b) the delivery of United Nations Development Programme-financed projects; (c) similar information to (a) and (b) in respect of non-United Nations Development Programme-funded projects; and (d) support-cost reimbursement from non-United Nations Development Programme sources;

2. Further requests that the external auditors of the World Meteorological Organization examine and verify the amounts shown in such a financial statement;

3. Authorizes the Administrator to make an additional reimbursement for support costs to the World Meteorological Organization equal to the difference between the amounts already reimbursed by the United Nations Development Programme for each of the years 1984-1986 and the amounts to which the World Meteorological Organization would be entitled for each of those years, based upon the maximum amounts allowed under decision 81/40, paragraph 4, after taking into account the total actual support costs claimed by the World Meteorological Organization under paragraph 1. The Administrator shall satisfy himself that such actual support costs are in keeping with the definition of support costs used by the United Nations Development Programme in the case of other agencies.

