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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 I. MATTERS REFERRED TO THE COMMITTEE BY THE COUNCIL

C. Government execution

1. For its consideration of the financial implications of this subject, under item 4 (a) of the Council's agenda, the Committee had before it the report by the Administrator on the Review of Programme and Project Activities (DP/1987/16) which dealt, *inter alia*, with government execution. The document reviewed government execution during the experimental period of add-on funds and recommended that the add-on fund arrangement be retained in a somewhat modified form. The modification would be to apply one percentage point of the 13 percentage points add-on in respect of government-executed projects towards the additional staff costs of the Division of Finance in UNDP headquarters incurred in accounting for government-executed projects.

2. The item was introduced by the Associate Administrator, who explained the background for the recommendations. He pointed out that one of the main problems being faced with government execution is that of reporting and accounting for such projects. The experience over the past few years had shown that the accounting for government-executed projects required considerably more work by the Division of Finance than for agency-executed projects. This was so primarily because the

accounting procedures were more complex in the case of government-executed projects and were carried out at the transaction level. Detailed project accounting was done by agencies on agency-executed projects and expenditures were reported to UNDP in a uniform and aggregate manner by computer, which was not feasible for government-executed projects.

3. With the increase in government execution, the Division of Finance had to take on additional staff to cope with its work-load, as was explained in paragraph 68 of document DP/1987/16. It was considered essential to maintain the same standard and quality of accounting for government-executed projects as for other projects, but the extra costs associated with maintaining such standards should be recouped. It was on that basis that the Administrator recommended that 1 per cent of add-on funds, or about \$400,000 at the present rate of implementation, should be made available to UNDP to meet these costs of the Division of Finance.

4. The Associate Administrator further pointed out that the review of government execution had shown not so much that the recipient countries were incapable of meeting the necessary accounting and reporting requirements, but that the difficulty often lay in the lack of staff resources. As government execution continued to have momentum and to increase, it was important to ensure the proper accounting of project funds. The implication of that was clearly that the add-on fund arrangement should be retained since this will enable UNDP to assist Governments in correcting the above-mentioned deficiencies.

Summary of the discussion in the Committee

5. Members welcomed the progress shown during the reporting period in the increase of approvals of government-executed projects. There was general support for the proposal to finance additional headquarters costs associated with government execution from add-on funds. Questions were, however, raised as to how the figure of 1 per cent was arrived at. One member inquired whether non-compliance with reporting requirements on government execution increased headquarters accounting costs, and if so, to what extent. It was felt by some members that a flat rate of 1 per cent for headquarters costs would penalize certain countries or regions which had a better record of financial reporting than others.

6. On the question of the add-on fund arrangement, most delegations preferred for the time being the extension of the experimental period rather than the adoption of the arrangement as a permanent feature. Some members favoured extending the deadline of the experimental period from 31 December 1987 to 31 December 1988. Since the Administrator had announced that an evaluation of government execution projects was in progress, Committee members were of the opinion that the Council would be in a better position to decide on the future of the add-on fund when a more comprehensive report based on the evaluation would become available to the Council. The hope was expressed by a number of members that that report, which would be presented to the Governing Council at its thirty-fifth session (1988), would contain more qualitative information on the modality, such as the impact and cost-effectiveness of projects executed by Governments.

7. Members welcomed the intention expressed by the Administrator in the report to give greater emphasis to applying established criteria when selecting projects for government execution. The need to ensure the existence of adequate capacity by recipient Governments to execute projects was emphasized. To the extent that there were management problems with government-executed projects, UNDP should make efforts to assist Governments in overcoming them. A question was raised as to how such UNDP assistance to Governments affected the work-load of field offices.

8. Members also welcomed the emphasis that the report placed on ensuring that different modalities of providing project inputs were considered under government-executed projects. The importance of the involvement of specialized agencies and the Office for Projects Execution (OPE) on government-executed projects was emphasized, both as co-operating agencies and under ad hoc arrangements. However, one member raised the question as to whether such involvement of agencies on these projects would not unduly complicate their administration and management. Some members expressed concern about the low rate of delivery on government-executed projects.

Response of the Administration

9. The Associate Administrator emphasized that government execution should be viewed not only as a modality, but also as an act of policy, since it was based on resolutions of the General Assembly and numerous decisions of the Governing Council. To make the policy effective, supportive action was required. That had led to the Council adopting the concept of add-on funds in 1982. While the add-on funds were to provide incentives to Governments to undertake execution of projects, they were also to provide support for Government administration and training as well as support to field offices. At the time, the Council had not foreseen additional cost to headquarters. With the growth of government execution, the additional cost had now become apparent. That, therefore, was the basis for the recommendation to include such headquarters costs with the other items which could be covered by the add-on fund. The 1 per cent of the add-on fund being proposed to meet these headquarters costs had been computed on the basis of the actual estimate for additional staff. There would certainly be economies of scale as government execution experienced further growth. Therefore, the 1 per cent being proposed was considered to be a cap - the maximum that would be required to meet these additional headquarters costs.

10. The Associate Administrator stated that most of the additional work carried out by the Division of Finance on government execution was because the same reporting standards were required for projects executed by Governments as for projects executed by agencies. Reports from agencies were limited by the number of agencies. In dealing with Government reports, many more entities had to be considered, since the reports came from a larger number of sources. The difference between countries that presented their reports comprehensively and on time and those that did not, represented only a marginal factor in relation to the additional work-load. It would therefore be neither justified nor practical to pro rate these charges to the add-on fund country by country.

11. Concerning the additional work-load in field offices, the Associate Administrator estimated that about \$400,000 of add-on funds had been allocated to offset additional costs so far. It was expected that the burden on field offices would continue for the foreseeable future as more countries undertook executing responsibilities and more add-on funds would be used to strengthen field offices. Regarding the strengthening of field offices, the Associate Administrator estimated that 18 per cent of total add-on funds had been spent on support projects. That amount included training of Government staff in government execution and support to Government administrations. It was also anticipated that, as more add-on funds became available to individual countries and Governments became increasingly aware of the potential for their use, more of these funds would be committed for support projects.

12. The Associate Administrator reiterated the intention of the Administrator to make additional efforts to encourage greater association of specialized agencies and OPE with government execution. Responding to a specific question that was raised in that context, he stated that payment for agencies serving as co-operating agencies on government-executed projects did not present a problem nor an undue administrative burden. In situations, however, where agencies were associated with government-executed projects on an ad hoc basis, payment for such services were somewhat more difficult in the sense that agencies had to cost such services individually as and when they occurred. It had to be stressed, however, that such ad hoc involvement of agencies was very useful and important, especially at the formulation stage of projects and in providing specialized technical support to Governments in recruiting experts or procuring equipment.

13. In responding to the concern expressed by a number of members at the relatively low level of delivery on government-executed projects, the Associate Administrator explained that, during the time of growth of government execution and the Programme as a whole, the delivery rates of government execution would appear to be comparatively lower than they actually were. That was because Governments were required to report delivery on the basis of actual disbursements only, whereas agencies also included unliquidated obligations in their delivery figures. Assuming a growth in expenditures from year to year, in the latter case, where unliquidated obligations were shown, the delivery figures would be relatively higher in comparison to the former case, where only actual disbursements were shown.

14. Finally, the Associate Administrator confirmed that a qualitative assessment of government-executed projects was currently in process and that a report on the subject would be made to the Governing Council at its thirty-fifth session.
