BUDGETARY AND FINANCE COMMITTEE
Thirty-fifth session
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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. K. Tenkorang (Ghana)

Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Agency support costs

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/1988/54. The Deputy Assistant Administrator, BFA, introduced the item by noting that the document represented the third ex post facto report on agency support costs to be submitted to the Council. In the biennium 1986-1987, the overall delivery of technical co-operation activities, from all sources combined, had increased to reach the highest level over the last three biennia. Moreover, the decline in the UNDP share of total technical co-operation had been reversed and was now at almost the same level as extrabudgetary resources. However, it was clear from the report that support
cost income from UNDP and other extrabudgetary sources was insufficient to cover support cost expenditure and that the subsidy from the regular budgets of the agencies had increased. This had been particularly noticeable in the European-based agencies, where the currencies of the countries in which their headquarters were located had appreciated substantially against the United States dollar. He further pointed out that the overall ratio between agency support cost expenditure to total technical co-operation project expenditure had, on average, increased from approximately 17 per cent in the past two biennia to 19.2 per cent in 1986-1987.

2. The Deputy Assistant Administrator emphasized that great care was 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 valid. The value of the report was that it enabled general trends and developments in support cost expenditure to be identified.

Summary of the discussion in the Committee

3. In general, members welcomed the increase in technical co-operation activities and the reversal of the decline in the UNDP share of these activities. However, they were concerned that it had not been possible to keep support cost expenditure within or close to support cost income and that, in 1986-1987, the burden on the regular budgets of the agencies had increased. One member further pointed out that the fluctuations in the exchange rates made it difficult to determine what was the real cost of support.

4. Some members noted that support cost income from other extrabudgetary sources represented a lower percentage of project delivery than income from UNDP and wondered if this was placing a disproportionate burden on regular budget resources. In this regard, one member indicated the percentage income from extrabudgetary resources in respect of the Office of Project Services (OPS) and sought confirmation that there was no subsidy to OPS from other UNDP funds.

5. Two members, noting the increased subsidy from the regular budgets of the agencies enquired whether agencies were, as a result, refusing to take on further UNDP activities.

6. Some members sought further clarification on the methodology used in identifying support cost expenditure and whether it had been consistent over the years.
Response of the Administration

7. In response, the Deputy Assistant Administrator recalled that the decision to reimburse support cost expenditure at a standard rate of 13 per cent of project delivery had been determined by the Governing Council at the beginning of the third cycle. In identifying support cost expenditure, the agencies did not all use the same approach, although he believed that within each executing agency the methodology had been consistent from one biennium to another. The approach depended on the organizational and accounts structure of each agency. While some identified UNDP as a separate cost centre, others comingled activities and therefore used formulae for deriving technical assistance support costs. He therefore considered the benefit of the ex post facto report was to be found in the trends shown at the macro-level. At this level, it was clear that the 13 per cent reimbursement rate was insufficient to cover support costs.

8. With regard to the ratio of support cost expenditure to project delivery, the Deputy Assistant Administrator stated that the increase in 1986-1987 was due almost wholly to the impact of exchange rates. There were, however, signs of a shift in the type of inputs to projects towards greater use of national experts and consultants, and of short-term experts rather than long-term experts. This would require increased administrative support.

9. With regard to reimbursement of support costs for other extrabudgetary activities, the Deputy Assistant Administrator pointed out that these activities were often quite different in nature from the traditional patterns of UNDP project activities and support requirements were therefore different. In addition, there was more flexibility for the executing agencies in negotiating rates of support cost reimbursement with the donors.

10. The Deputy Assistant Administrator confirmed that although the ratio of support cost expenditure to project delivery for OPS was low, there was no subsidy to OPS from other UNDP resources. In fact, at the end of 1987, OPS had returned $1.3 million to the general resources of UNDP. The Committee should, however, note that OPS made extensive use of sub-contracts and the sub-contracts also contained an element of overheads. Moreover, the cost of support to OPS activities by the UNDP field offices was also not included.
11. The Deputy Assistant Administrator stated that he did not know at what point the burden on the regular budgets of the executing agencies would be considered too great to continue implementing UNDP activities. He was not aware of agencies turning down UNDP projects. Executing agencies had, however, expressed their increasing doubts at their ability to maintain timely delivery and quality of backstopping.

**Recommendation of the Committee**

Following consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

**The Governing Council,**

*Having taken note of the ex post facto report of the Administrator on agency support costs (DP/1988/54), and of the views and opinions of members of the Governing Council thereon,***

*Welcoming the increase in technical co-operation activities from all sources combined and the increase in the United Nations Development Programme share in these activities,*

*Expresses its concern at the increase in the ratio between agency support cost expenditure and total technical co-operation project expenditure,*

*Requests the Administrator to continue to submit, on a biennial basis, an ex post facto report on agency support costs.*