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

F. Agency support costs: Operational activities for development: Project support costs

1. For its consideration of this subject, under item 9 (f) of the Council's agenda, the Committee had before it the Report of the Administrator contained in document DP/1988/63.

2. In introducing the item, the Deputy Assistant Administrator, BFA, explained that the document had been prepared in response to General Assembly resolution 42/196 of 11 December 1987, which, inter alia, invited the Governing Council to begin consideration of arrangements for project servicing costs to take effect in 1992, in succession to those contained in Governing Council decision 80/44 of 27 June 1980. He provided a brief history of the subject of programme support costs that had engaged the attention of the legislative and consultative fora of the United Nations and its specialized
agencies for more than 30 years. During the 1950s, various approaches had been taken for the reimbursement of support costs in respect of activities financed by the Special Fund and the Expanded Programme of Technical Assistance (EPTA). These included reimbursement at rates of 12 to 14 per cent of project expenditure and consolidation of overheads into the regular budgets of participating agencies. During the 1960s, the formula for reimbursement of support costs in respect of the Special Fund separated the costs related to equipment and supplies from other costs, applying a rate of 3 per cent to the former and 11 per cent for the balance. When EPTA and Special Fund were consolidated into UNDP, in 1972, a single provisional rate of 13 per cent of project costs was established. This was increased to 14 per cent in 1974 and a flexibility provision for smaller agencies was introduced. In addition, the 1970s saw a series of studies by consultants and working groups to identify a scientific basis for the reimbursement of support costs. In 1980, on the recommendation of the Intergovernmental Working Group, the Governing Council approved, in decision 80/44, a standard rate of 13 per cent as well as flexibility arrangements for the smaller agencies, to apply for the period 1982 to 1991. In addition, executing agencies were requested to submit periodic reports on an *ex post facto* basis, indicating the elements of support costs incurred by them in the preceding period. Throughout the whole period, ACABQ had maintained the view that technical assistance programmes should be charged only with additional administrative costs, even though they recognized that these were difficult to identify. They considered it a basic principle that the relationship between executing and funding agencies should be one of partnership and that organizations should provide, from within their regular budgets, a substantial portion of the overhead costs of the extrabudgetary programmes. They also believed that the degree to which an executing agency participated in the support of operational activities financed from voluntary funds was a matter for the legislative organs of those agencies.

3. With regard to the task before the Council, the Deputy Associate Administrator suggested that, in view of the complex nature and political implications of the issues involved, the Council consider the possibility of establishing an intergovernmental working group to deal with the matter. It was further suggested that, to ensure the effective functioning of the group, participation be restricted to three representatives from each region. In view of the cost-sharing relationship between UNDP and the executing agencies,
it might also be advisable to include three representatives from among the
governing bodies of the agencies. With regard to timing, it was important
that the recommendation be available by June 1990, since the framework for the
fifth programming cycle was scheduled to be finalized by that date.

Summary of the discussion in the Committee

4. Members recognized that the question of reimbursement of support costs
was an extremely complex one, which had wide ramifications. Both UNDP and the
agencies were working in a dynamic environment, which was bound to affect the
tripartite relationship. It was important that any review of the support
services and the mechanism for their reimbursement took that into account and
provided a sound base for supporting programme delivery into the 1990s. In
that regard, one member considered that the review should look at the impact
of Government execution as a modality; the relationship of UNDP to the
agencies; the issue of quality and accountability; and the growth of field
representation of the agencies. His delegation was concerned at the
competition for funds, which they considered detrimental to co-operation.
Other members pointed out that, while decisions 80/44 and 81/40 of
30 June 1981 were still valid, they did not fully respond to the situation
that had arisen more recently with regard to fluctuating exchange rates.

5. Several members supported the proposal to establish an intergovernmental
working group. They recognized that the issue was, above all, a political one
and, as such, could only be dealt with satisfactorily by Governments. The
working group should ensure that it was fully informed of the views of all
executing agencies, and recipient as well as donor Governments. In addition
to the financial aspects concerning actual costs and the impact of fluctuating
exchange rates, the working group should also look at the broader issues
relating to the quality of and accountability for programme delivery. In
recommending an intergovernmental working group, these members were conscious
of the substantial amounts of money that had already been spent over the years
in searching for an ideal solution to the support-cost reimbursement issue.
They therefore supported the proposal for a small working group with limited
but adequate representation, including executing agencies, to keep costs to a
minimum. One member suggested that the issue be within the framework of the
Committee of the Whole so that members of the Governing Council would be
conversant with the subject when it came before them for a decision.
6. Other members, however, felt that it was premature to establish an intergovernmental working group at the current session. Several members considered a working group to be a cumbersome and costly approach and foresaw difficulties in ensuring adequate geographic representation. Delegations from recipient countries further explained the difficulties faced by them in being fully represented at what was now becoming a proliferation of intergovernmental working groups. Whilst recognizing that it was a political issue, members considered that, as a first step, it would be more appropriate if there were further consultations between UNDP, the executing agencies and, where necessary, intergovernmental bodies, possibly under the aegis of the Advisory Committee on Co-ordination (ACC). At the conclusion of these consultations, the Governing Council would receive, at its thirty-sixth session (1989), a technical document clearly defining the issues involved, together with possible alternative solutions. The Governing Council could then consider the issue and determine if it were necessary to establish an intergovernmental working group. These members also agreed that any deliberations on support costs should go beyond the purely financial aspects. One member suggested that these consultations could be carried out through informal meetings. As an alternative approach, one member, supported by others, suggested that a select group of high-level experts be established, nominated in consultation with UNDP, the executing agencies and Governments. This panel could review all aspects of the subject in depth and report to the Governing Council at its thirty-sixth session (1989). Another member, noting that the role of UNDP in the future would be under review in other forums and that a major study of the Office for Project Services (OPS) had been requested, expressed concern at the possibility that the recommendations emanating from the working group might lead to contradictions.

7. One member sought information on the composition and duration of the intergovernmental working group which had been formed in conjunction with decision 80/44. Another member requested clarification on the involvement of specialized agencies under Government-executed projects and the reimbursement of related support costs.

Response of the Administration

8. With regard to Government execution, the Deputy Assistant Administrator informed the Committee that specialized agencies frequently executed parts of projects as associated agencies. Support costs were reimbursed to the agencies at the standard rate in respect of those inputs.
9. The Deputy Director of Finance provided further information on the previous intergovernmental working group that had concerned itself with the support cost issue. The working group had been established in 1977 by decision 77/33 of 29 June 1977 and was open to all members of the Governing Council as well as observers. After several meetings, they appointed a consultant to study the matter further. On the basis of the working group's report, the Council established the arrangements described in decision 80/44.