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PROGRAMME IMPLEMENTATION

AGENCY SUPPORT COSTS

Recommendations on agency support costs in accordance
with decision 90/5 of 23 February 1990

Report of the President of the Governing Council

Addendum

STATEMENTS OF THE PRESIDENT OF THE GOVERNING COUNCIL FOR 1990
AT THE OPEN-ENDED CONSULTATIONS OF MEMBERS OF THE PROGRAMME
ON AGENCY SUPPORT COSTS
I

STATEMENT

OF

THE PRESIDENT OF THE GOVERNING COUNCIL FOR 1990

AT

THE OPEN-ENDED CONSULTATIONS OF MEMBERS OF THE PROGRAMME

ON

AGENCY SUPPORT COSTS

2 MAY 1990

(As delivered)
1. Welcome to this first open-ended consultation on the subject of the successor arrangements for agency support costs.

2. As you will recall Governing Council Decision 90/5 requested me to convene such consultations in order to undertake further analysis of the report of the Group of Experts contained in document DP/1990/9. The consultations, as is stated in paragraph 6 of the Decision, are intended to facilitate the adoption by the Council at its 37th session of a decision on the successor arrangements.

3. I have already invited you to further consultations on 15 and 16 May. After these I will prepare the recommendations I am required to make to the Governing Council. These I hope to complete on 21 May. They will comprise the only proposals on this subject formally before the Council at the beginning of our discussions in June.

4. My statement today is a progress report. I hope it will provoke dialogue between members of the Programme and the Bureau so as to make my task in preparing my recommendations an easier one. I will begin the task of analyzing the three options recommended by the Group of Experts; but at this stage it is premature to draw conclusions on the choice of options which should be recommended to the Council in June. Moreover I do not wish to imply that by focussing, as I am required by the Decision, on the three options recommended by the Group of Experts that I am in any way committed to recommend any one of them. A number of proposals for different arrangements are among the papers you have received. I will later try to help colleagues identify these options.

The options preferred by the Group of Experts

5. The Group of Experts' three preferred options were amongst seven main options identified in Chapter VII of their report "Partnership Reconsidered". In accordance with their terms of reference the Experts presented a range of options rather than a single recommendation. My colleagues on the Bureau and I have studied their preferred options. We have understood that the options recommended contain elements which could be applied to the others. So as to avoid confusion my analysis will be carried out on the basis of the options as actually presented in paragraphs 411 to 440 of the report. Where we have discovered that variations are regarded as possible, and in the spirit of the recommendation, I will deal with this separately.

6. I should perhaps remind you of the present arrangements for support costs which expire at the end of 1991. They are set out in Decision 80/44 of 1980 and Decision 81/40 of 1981.
7. Our review of documents on the support cost question reveals that the great bulk of the 13% has been understood to be for non-technical backstopping by agencies. More precisely, about 11 per cent has been seen as relating to non-technical backstopping, and 2 per cent to project formulation. Any other technical backstopping was assumed to come from the regular budgets of agencies. It is evident that the financial and constitutional capacity of agencies to sustain this assumption is variable. These support costs are borne by a separate, centrally controlled, financial allocation, and not by the IFPs and are so not handled in any way by Governments. Other technical backstopping is regarded as being the responsibility of the Agency as part of its constitutional or mandated services and paid for by the Regular Budget.

8. Special arrangements favouring the small, autonomous, technical agencies, known as support cost flexibility, were set in the Decision of 1981. The Governing Council Decision does not bind other Agencies on the way of handling their extra budgetary funds, but, significantly, it urges governments and other governing bodies to apply the same arrangements to their own trust funds.

9. A convenient description of the present arrangements is given in the Experts' Report in paragraph 441 to 449 under the heading option 4.

10. The present arrangements are praised for their simplicity and the predictability of their income for the Specialized Agencies. They involve a cost sharing in accordance with the concept of partnership. They do however assume that technical support is financed by the regular budget, which may not necessarily be the case. They are criticized because they involve payment only for project execution and so may promote marketing of projects by agencies and thus may be volume-driven. They do not make provision for involvement in background advice and other non-project-specific activities. They are considered insufficiently conducive to government execution. Additionally, the automatic nature of the support cost payment means that members of the Council are not able to identify the ways in which the money is being spent by the Agency concerned. It has been suggested that the finance of administrative costs from a "hidden" support cost provision distorts decision taking and leads to a proliferation of projects. And for some Agencies the system gives difficulties because of currency fluctuations.
11. An additional introductory comment is to recall that programme and project support functions comprise both administrative and technical elements. The Group of Experts, in para 402 of their report, have set out a list of technical services, which they admit is not exhaustive, which constitute the main elements of technical support to programmes and projects. Focussed on technical issues, this list does not include administrative support, which is what the great bulk of current 13 per cent is understood to be for. At the heart of the Group of Experts' discussion of support cost options are the questions of -

a) whether centrally managed support costs (as distinct from project budgets) should finance non technical backstopping by agencies;

b) the division of financial responsibility for the technical functions identified in para 402, between UNDP services and the regular budgets of agencies; and

c) the best administrative arrangements for financing those from agencies.

Analysis of the recommended options

12. I will now turn to the first option recommended by the Group of the Experts, "Equitable Tripartite sharing of support cost". As presented in paragraphs 411 to 418 the essential point of this proposal is that the administrative and operational support for the programme - that is to say the agency services which are currently largely financed by support costs - would be financed by a block payment for staff infrastructure. This means that a number of posts - or man-months - would be negotiated regularly, based on the past pattern of project delivery and the expected requirements for assistance in backstopping nationally implemented projects and for other agency involvement outside project implementation. However in addition to providing infrastructure, this option makes provision for IPFs to absorb clearly identifiable and project specific cost elements. These, it is suggested, should preferably be negotiated rather than paid using a flat rate.

13. As presented in the report the infrastructure financed is primarily concerned with administrative and operational support.

14. This option has some of the characteristics of the present system in that agencies are recompensed largely for non technical functions and partly on the basis of past delivery and other services rendered; but it is potentially less volume-driven - a criticism of the present system. This is because it is envisaged
that UNDP would take account of expected requirements from the agencies as well as the past level of executing services. It might also be more "transparent" than the present system in that the services to be provided would be defined. The option resolves the problems arising from currency fluctuation because payments would be made against the actual cost of posts in the currency of the headquarters sites.

15. On the other hand it would require negotiation regularly between UNDP and the agencies. This would mean agreement on the criteria for identification of a desirable staff infrastructure. It has been suggested that this might be difficult and the negotiations protracted. A potential area of dispute will be the role of the funding agency in the selection and management of the staff financed. And there could be difficulties over the agreement with the Government on projects if the clearly identifiable and project specific cost elements are not set on the basis of a fixed relationship to expenditures. This is the only option which retains the administration costs outside the IPFs, and could thus be criticized, like the percent arrangements, for not directing the attention of governments to the costs of administration of projects.

16. Option 2, "Separation of support service from project execution" - is described in paragraphs 419 to 429 of the Experts Report. It starts with the assumption that the technical capacity of the agencies need financing in some measure by UNDP. But administrative backstopping would be covered solely by project budgets. A payment of a sum of money would be made available by UNDP for technical services, primarily non project technical services, which are required for the activities of interest to the UNDP programme. According to the Group of Experts' report those services would be largely (h) - (n) of para 402 of the report. The Group of Experts' suggest that the sum of money could be in the range of 7 per cent of the agency's project delivery in the previous biennium. Once the system was under way the negotiated payment from UNDP to the agencies would be decided by a calculation of the actual costs of the services rendered in the previous biennium. But if the proposal for a support cost measurement system proves impractical, the payment by UNDP would be negotiated much as in the first option. The administrative costs of backstopping of projects by agencies would be decided by negotiations with governments, project by project, or emerge from the results of competitive bidding.
17. This option differs from option 1 in two major respects:

a) No provision from the support cost provision is made for administrative support. Instead, all administrative cost for agencies in project execution would come from project budgets, on the basis of negotiation or competitive processes.

b) Specific posts would not be financed. Rather, a work plan for non-project services would be negotiated.

18. It has the characteristic that it would be less predictable for the agencies as regards the income for the administrative support of UNDP programmes, because this would come from negotiations with countries over the services to be provided project by project. Unlike option 1 there would be a need for some system to protect the agencies against the effect of currency changes over the down payment for technical support, since this payment would be a set monetary sum rather than the actual cost of posts. This option could encourage the introduction of a cost measurement system by each agency.

19. In this option, unlike the last, administration cost are borne centrally by IPFs.

20. I now turn to option 3, "Full freedom for Governments in the choice of execution modalities and agents".

21. This option invests much authority in the Government and makes the least provision for privileged access by the Agencies to project execution.

22. Under this option support costs would be provided to Agencies for items (k) to (n) in paragraph 402 of the Experts' report. These would be arrived at either by charging actual costs or by negotiation. Governments would normally choose the technical entity it wishes to work with. Where agencies are asked to implement a project they would negotiate administrative and technical backstopping costs with governments and the costs would be charged to project budgets.

23. My reading of the Group of Experts' discussion of this option suggests it implies the least direct transfer of resources from UNDP to the Agencies.

24. The option as presented emphasizes that under it the Government should have deciding power in the administration and implementation of projects, but as I will infer later this is a characteristic, which if agreed, could be applied to any option.
25. The recommended options could be perceived as a continuum. All are predicated on the basis of an increasing role for national execution and a decline in the role of agencies in the execution of projects. They envisage that agencies retain and strengthen their functions as centers of excellence and their role in upstream activities. Many agencies would find new roles in technical support for governments implementing their own projects, and the developmentally orientated agencies would continue to have a substantial role in assisting the building of capacity.

26. Where we select an option in this continuum must depend in part on one's views on the pace of change envisaged or desired in the next Cycle, or for whatever period any new arrangements are to apply.

Funding Agency Responses

27. Paragraph 8 of the Decision 90/5 requested the Administrator of UNDP and the Executive Director of the United Nations Population Fund to provide the Bureau with "written comments on the report of the Group of Experts, setting out their views and recommendations of the options identified."

28. The response of the Administrator has been circulated amongst your papers. It includes specific proposals for a successor arrangement for UNDP. It also covers an important paper on National Execution which we will be discussing at the 37th session under a separate agenda item, - No. 4 (x).

29. I would particularly draw your attention to the Administrators' paper on national execution, which will be DP 1990/33. As I implied before, the suggestions contained in it, and the new conceptual distinction between execution and implementation, will need to be decided in a different discussion of the Governing Council, as will the proposal in the main paper to carry out all projects begun after 1 January 1992 by national execution, as newly defined.

30. I will quote in extenso the definition proposed by the Administrator. This is to be found in paragraph 8 of his paper DP 1990/33, which reads as follows:

31. "National Execution is a co-operative operational arrangement whereby the Government assumes responsibility for the effective management of all aspects of its UNDP-financed technical assistance projects and programmes as requested by it and agreed to by UNDP. National execution recognizes the wide range of technical support possibilities, and encourages implementation arrangements that draw upon outside technical expertise and in particular, UN specialized agencies."
32. Under national execution, Governments are responsible for the conduct of all project and programme activities including those implemented by UN specialized agencies, OPS or other organizations or institutions on their behalf. Governments are accountable to the Administrator of UNDP for ensuring the most appropriate implementation arrangements, the quality of technical cooperation funded by UNDP, and its judicious financial management."

33. This should of course be read with paragraph 9 of the paper on National Execution relating to the proposed distinction between execution and implementation.

34. The Executive Director of UNFPA has also provided detailed comments which include proposals for a separate regime for UNFPA which has some of the characteristics of options 1 and 2.

Other agency responses

35. Paragraph ii of the Decision 90/5 invited the executive heads of all executing agencies to submit "written comments for the informal consultations on the report of the Group of Experts, particularly in respect of the options set out in chapter VII."

36. So far 23 executing agencies have submitted written comments, and these have been circulated to you. In addition the report of the Task Force of the Consultative Committee on Substantive Questions (Operational Activities), to which a number of agencies have subscribed, has been distributed today at the request of the Chairman of the Inter-Agency Task Force.

37. I commend a study of the responses of the executing agencies. I will not seek to summarize them but propose merely to draw your attention to papers which include specific proposals for new regimes. These are the response of the CCSQ(OPS), the papers from UNIDO and Habitat, and also the second paper from UNESCO - the "Reply to the Questionnaire". These all propose regimes which I will attempt to describe in the same manner as I hope to do for those from the funding agencies and have done before on the three recommended options, that is to say to give my interpretation of them, and to identify characteristics which have been presented as advantages or disadvantages. Again as I explained I will try to make no judgements.

Description of alternative suggestions

38. The Administrator makes proposals in his 'Comments and Recommendations of UNDP' which borrow from option 2 the idea of UNDP financing some technical services of the agencies. Within an
overall ceiling to be set for this UNDP would negotiate every two years on an agency by agency basis a two-year financial commitment for a work programme within a three-year forecast. This would be based on expected requirements rather than historic patterns. The administrative costs for the agencies and some technical costs would be covered by the project budgets - that is to say by the IPFs. UNDP prefers that these payments should be negotiated, but the paper does not rule out the use of a system of rates - differentiated according to the broad nature of the services provided.

39. The proposals of UNFPA for their relationship with their smaller number of executing agencies involve the dropping of the present support cost arrangements. Instead a five year arrangement under which technical support services in specialized agencies, both at Headquarters and the regional levels, would be funded to provide technical backstopping to country programmes and projects. Administrative and operational costs for participation in programme or project implementation would be charged to the respective programme or project budget.

40. The Group of Experts recommended that the small technical Agencies should be given the option of maintaining the present arrangements as regards flexibility rather than to go over to any new regime. This proposal is supported in the Report of the CCSQ(OPS) Task Force. There are proposals from the smaller Agencies, for example, in the response from the World Meteorological Organization, for modifications to the present flexibility arrangements as regards the level of the thresholds and protection against currency fluctuations. There are also proposals from the smaller Agencies within the United Nations proper that the flexibility arrangements should apply to such Organizations, which at present are excluded by the 1980 Decision.

41. The proposal, "reimbursement by functions", put forward by a number of agencies in the report of the CCSQ(OPS) Task Force is actually to be found in the extract attached to their paper, the work of CCAQ(FB). This proposes no block grant from UNDP to the agencies as envisaged in the recommended options, but payments on a fixed rate for services actually performed. This option approximates most closely to the present system, but may differ significantly from it if the proposal means that the cost of technical backstopping is to be included in the services subject to financial support from the funding agencies.

42. However it was designed to deal with the possibility of the agencies being involved in only part of the project - in order to assist national execution - and in work on other than project implementation. To avoid the need for protracted negotiations the
Agencies suggest that these payments should be governed by a standard rate for each element of assistance. The rates would be determined by surveys of actual costs carried out by an independent body and subsequent agreement by the UNDP Governing Council and Agency Governing Bodies on what share of these costs would be borne by UNDP. Protection against currency fluctuations is commended. As written the proposal is not specific whether the payments should be borne by a support cost provision or by the IPFs.

43. Amongst your papers is a proposal from Habitat based on option 2 and borrowing also from the CCSQ (OPS) proposal. It is based on reimbursement of costs by function, and separating technical programme support services from programme/project implementation.

44. UNIDO's response contains 2 proposals. The first, marked UNIDO option 1, proposes the payment from the support cost provision to an agency of a lump sum which, in the first biennium would be roughly equivalent to the former provision for support costs for that agency. In subsequent biennia it would be related to the actual use of the agency services in the previous biennium. The agency would be paid in that way for administrative and technical support for UNDP projects whether or not they implemented them themselves, or simply backstopped government. Additional payments would be made from project budgets for other technical services and for those elements of potential agency activity which have been traditionally under-funded or neglected. Some project related costs currently carried out by the agencies would be covered by the project budgets.

45. The novel point in this option is the payment to agencies for backstopping projects carried out by governments. It therefore emphasizes the role of the agencies in providing services for all parts of the technical cooperation process. It addresses the problem of agency involvement in other functions than project implementation.

46. UNIDO's second option involves a contribution by UNDP from "sectoral support" for sectoral level activities, which would be negotiated in advance for each biennium. It would also provide for a flat rate payment for technical support services from the support cost line, the rate arrived at by a UNDP/Agency study. In addition the project budgets would cover technical and other backstopping services.

47. This option has many of the characteristics of the previous one, but relates the payment for technical support more directly to work currently done rather than to work done in the past.
48. UNESCO's proposal describes itself as an elaboration of the CCSQ(OPS) proposal. The main difference, as I read it, is that in addition to the system of rate for project implementation recommended by the CCSQ - to apply to agency executed projects and agency implemented activities under national execution - there should be a block payment for the work done by the agencies to support national implementation of projects and for some upstream activities - again based on surveys to establish what the cost of these activities is on average.

49. The proposal seems to envisage UNDP paying the full cost of technical support. The support costs would largely be maintained separately from the IPFs. This proposal is intended to give greater incentives and focussed support for national implementation.

Work of the Bureau and Advisers

50. In paragraph 4 of its decision the Council decided to enlist the services of ten advisers from member countries of the Programme chosen on the basis of proportionate geographical distribution to assist the Bureau in its work. The Bureau was asked to undertake "consultations with the UNDP and other organizations of the UN system".

51. I am pleased to report that the advisers, whose names are included in a list attached to the printed version of this statement, have been working closely with the Bureau. (Annex I).

52. In order to understand better the comments and proposals which had been requested from the agencies Bureau Members and the Advisers have held discussions with UNDP and UNFPA, and on their own terrain with the Secretariats of the six largest executing agencies (measured in the size of their UNDP financed programme), one small technical agency, and some other Geneva based agencies. We hoped thereby to sensitize ourselves to the ways of thinking of a cross section of our partner agencies; and we were grateful for the thoughtful attention given to us. Our missions took us to Rome, Vienna, Geneva and Washington. A list of the agencies we met is also attached to the printed version of this statement. (Annex II).

53. These missions were undertaken in the spirit of paragraph 11 of the decision which enjoined "all parties involved to facilitate the process of building a consensus".

54. A number of the agencies responded in writing to an indicative questionnaire which was used to structure our conversation with those agencies which were visited.
55. The Bureau members and advisers will be happy to take up in correspondence or by visiting issues of importance to other agencies which have not been visited, and to continue the dialogue with all UNDP's partners and UNFPA's executing agents.

56. Agencies' representatives have been invited to attend this consultation and I look forward to their participation again on 15 and 16 May.

Views of the Agencies

57. I will give my impression of the messages left with us in our discussions which are important for our work.

58. Agencies value the Tripartite agreement confirmed in the Consensus of 1970, or, another way of looking at it, the partnership between UNDP as the funding body and the executing Agencies. In principle it is accepted that existing technical capacities of the agencies maintained by the regular budgets should be available for the provision of technical cooperation, provided that UNDP resources are available to deal with the administrative costs of delivery. But against the backdrop of severe financial constraints in agencies we learnt that there are wide differences in the view taken by governing bodies on the extent to which technical advice and backstopping can be made available; on whether restrictions need to be placed on technical contributions and whether subsidies to the administration of project activities are acceptable. These differences reflect the importance of the role of technical cooperation in the remit of the organization, the proportion of finance which comes from UNDP, and the pressure on finances being imposed by budgetary difficulties. Moreover for some executing agencies extra-budgetary resources account for a very large share of their activities.

59. Some Specialized Agencies pointed to the effect of financial difficulties caused by Members' budgetary policies or by arrears. Others pointed to the extent to which the cost to the budget was becoming less hidden as a result of the growth of the technical cooperation programme and was being increasingly queried by the Membership.

60. Secondly, agencies had different views of their performance or needs in "upstream" activities, an area considered by the Group of Experts to be neglected. One, at least, adopted a programme approach many years ago which, in its view, ensures a balanced involvement in all activities of the cycle. Another saw no difficulty because its budget made provision for this work where required. Some, including agencies which are part of the UN itself, acknowledged difficulties and commended sectoral support
or "projectized" help. Some considered their lack of involvement in programming, Round Tables, NATCAPS and non project work was the result of deliberate marginalizing of them by UNDP. Views were divided on whether agency-executed projects financed by UNDP were too dispersed. Some thought this was so, and commended a programme approach or a clustering of projects for administrative economy. But they thought it was due to poor programming and stretching IPFs too far. Others ascribed it to the UNDP practice of requiring larger projects to go to headquarters for approval and commended decentralization of decision taking. Few related it to the separation of the support cost line from IPFs.

61. Most dismissed the idea that today agencies were salesmen for their projects. Some larger Agencies felt committed to take on a wide range of projects if requested by the Government or UNDP. Others say they find it necessary to turn down projects due to budgetary constraints and a desire to focus on key modalities. Others considered that lack of field presence meant that projects in their area of interest were being overlooked, and commended an expansion of existing sectoral support scheme.

62. Unisectoral agencies found difficulty in identifying a substantially different role for government execution in the type of work they currently carried out. It became obvious that such agencies were largely making inputs into programmes which were executed by Government. Others felt that their home grown practices of local capacity building within the project served the same purpose. Agencies were prepared to serve as cooperating agents on projects executed by Governments. Many were concerned about the prospect of a change to Government implementation in mid project and feared a forced pace of change. Agencies which had invested large resources in staff to administer UNDP financed projects were concerned at the impact of a sudden switch to a system whereby agencies supported governmental implementation of projects and carried out more upstream than project implementation work.

63. Most agencies feared that a change to National Execution would mean rather a switch from Agency to direct UNDP implementation.

64. The role of OPS, and the conflict of interest between the roles of UNDP as a funding agency and as an executing agency was frequently stressed. Many agencies referred to the ways in which OPS could use agencies more in the work it carried out under Management Services agreements.

65. Agencies were, with one exception, of the view that non-UN bodies were better used as subcontractors than as primary executing agencies.
66. Many were concerned about the intention of UNDP Governing Council to take a Decision on the successor arrangements for support costs this coming June. Some, especially organizations within the UN proper, emphasized the desirability of a decision in June 1990 to permit appropriate financial provisions in their budgets for the 1992/1993 biennium. Others saw the need for action by their governing bodies, but wanted a decision-taking process in which there was a degree of consultation. Another identified a constitutional obstacle to a Decision in June which bound that organization. A number were concerned about the date or pace of application of any new arrangements.

67. Most agencies did not favour the recommended options in the Experts' Report for various reasons, save for the smaller agencies for whom the experts recommended a continuation of the present arrangements. Some objected to the suggestion, which they read into option 1, of the funding agency having a say in the staff which was to be financed by any successor to the support cost line. A few, however, saw no objection to specific staff posts in their agency being financed by UNDP or UNFPA.

68. Few showed any enthusiasm for introducing a cost measurement system, which is one of the proposals of the Expert Group especially in relation to option 2. At least two agencies have such a system in place. Others regard their experience of using one as not justifying the cost.

69. The smaller Agencies based in Europe and those for whom the UNDP support costs constitute a large proportion of their income emphasized the need for protection from the effects of currency fluctuation between the local currency and the dollar. There was a division of view between the majority who supported one of the proposals of the Experts - the use of the post adjustment formula, and another favouring a different solution - use of a currency reserve fund.

70. A number of Agencies were at the time of our mission involved in the preparation of a common position which has led to the CCSQ proposals. But it was clear that many preferred a continuation of the familiar present arrangements.

71. Many agencies preferred that the UNDP Governing Council should suggest a regime which would be applicable to their own Trust Funds, and that this regime should be a simple one.

72. As I mentioned earlier we also held discussions with staff of UNFPA and UNDP in order to understand better the proposals which they were making. We separately visited OPS. Since the views of
the two funding agencies on the Expert Group's recommendations and the rationale behind them are set out in their proposals, and should be known to you, I will not attempt to interpret them today.

**Principles for a Decision by the Governing Council**

73. I hope I have not disappointed you by not bringing forward preliminary recommendations on the successor arrangements at this stage. I would however wish to share with you the principles which I consider should underlie my recommendations.

74. The main principles emerge from the relevant intergovernmental decisions. These are:

1) the arrangements must be designed from the standpoint of how best to meet the requirements of developing countries;
2) the arrangements should encourage the fullest utilization and strengthening of national capacities;
3) they should seek to enhance programme and project quality and cost-effectiveness, partly by facilitating the adoption of a programme approach; and
4) they should reflect partnership within the UN system.

**Some questions to be answered**

75. This run through the options, and the views of the funding and executing agencies, brings out some key points on which it will be necessary for the membership to have a view before a successor arrangement can be designed in detail. I pose these questions and invite your reaction.

- Should a new regime seek to expedite the pace of national execution, or simply be compatible with it?
- Should UNDP finance technical capacity of Agencies, bearing in mind that such capacity has been assumed in the main to come from regular budgets?
- As a matter of policy, should project support be charged to project budgets, as distinct from a separate support cost provision?
- Should the Governing Council give guidance on the arrangements for Trust Funds of the UN system? And should these be the same as for UNDP?
- Should there be different arrangements for UNDP and UNFPA?
Within UNDP, could there be several sets of arrangements, including possibly the existing system, where it appears to suit?

Concluding remarks

76. The decision taking process is complicated. From members of this Council I would ask assistance in finding a successor arrangement which will meet their interests in all sectors of the UN family and in all agencies of the system. For us this will mean much work in a short time.

77. In finalizing your briefs I trust that you will be able to place as the first priority the improvement of the working of the UN system of technical cooperation in order the better to serve the needs of developing countries.
Annex I

AGENCY SUPPORT COST ADVISERS

Mr. Libran N. Cabactulan, Second Secretary, Permanent Mission of the Philippines to the United Nations

Mr. Hassen Elghouayel, First Counsellor, Permanent Mission of the Tunisia to the United Nations

Mr. Carlos Alberto Gianelli, Counsellor, Permanent Mission of Uruguay to the United Nations

Mr. A. Gopinathan, First Secretary, Permanent Mission of India to the United Nations

Mr. Roman V. Issinski, Principal Expert, General Administration for International Economic Policy, Ministry of International Economic Relations - Moscow, USSR

Mr. Evans King, First Secretary, Permanent Mission of Trinidad and Tobago to the United Nations

Mr. Jeremiah E. Kramer, Counsellor, Permanent Mission of Canada to the United Nations

Mr. Jan Erik Leikvang, Consul-General, Consulate General of Norway Houston, Texas

Mr. James M. Mugume, Counsellor, Permanent Mission of Uganda to the United Nations

Mr. R. Garth Pettitt, Head of the United Nations and Commonwealth Department, Overseas Development Administration - London, UK
UNITED NATIONS AGENCIES AND ORGANIZATIONS VISITED BY THE ADVISERS

Food and Agricultural Organization of the United Nations (FAO)
International Labour Organization (ILO)
International Monetary Fund (IMF)
International Telecommunication Union (ITU)
International Trade Centre (ITC)
United Nations Conference on Trade and Development (UNCTAD)
United Nations Department for Technical Co-operation for Development (UNDTCD)
United Nations Industrial Development Organization (UNIDO)
World Bank/International Finance Corporation
World Health Organization (WHO)
World Intellectual Property Organization (WIPO)
World Meteorological Organization (WMO)
United Nations Development Programme (UNDP, OPS)
United Nations Population Fund (UNFPA)
II

STATEMENT

OF

THE PRESIDENT OF THE GOVERNING COUNCIL FOR 1990

AT

THE OPEN-ENDED CONSULTATIONS OF MEMBERS OF THE PROGRAMME

ON

AGENCY SUPPORT COSTS

15 MAY 1990

(As delivered)
Introduction

1. When we met on 2 May, I commented on the main features of the options preferred by the Group of Experts, the responses received from UNDP, UNFPA, and the specialized agencies, and the alternative suggestions contained in these responses. I also apprised you of the progress in the work of the Bureau and Advisers, as well as in the discussions with funding and other agencies. On the basis of this early analysis of intergovernmental decisions, agency comments and suggestions, I proposed four main principles which should underlie the recommendations I am required to make. In my concluding remarks, I posed several questions and invited your reaction in order to help guide the work of designing a successor arrangement in detail.

2. The preliminary remarks made by a number of delegations on 2 May were indeed useful as general guidance for our work. There was wide support for the principles contained in para. 74 of my statement, including the view that successor arrangements should promote national execution. The value and continuing relevance of the 1970 Consensus, and the tripartite partnership of UN technical cooperation, were reaffirmed. Many useful and specific comments and suggestions were made and we have considered them carefully during the last two weeks.

3. I now turn to the issues to which I wish to draw your attention in our deliberations today and tomorrow.

4. A specific proposal for successor arrangement or arrangements, can not, at this stage be recommended for your consideration. More work is needed and your contributions to this new round of consultations will be extremely helpful. Instead, I wish to apprise you of the following:

- the overall considerations of which we have been taking account;
- a number of specific elements which could constitute parts or "building blocks" for a framework for agency support costs successor arrangements;
- the issues and questions for further consultations;
- and those items which should be subject for consideration by UNDP and Agencies.
I. BASIC CONSIDERATIONS

5. The provisions of paragraph 25 of General Assembly Resolution 44/211 have guided the consideration given and analysis made by the Bureau and its advisers. Account has also been taken of the report of the Expert Group and other studies done within and outside the system.

6. Common themes emerge from all these exercises and the Bureau and advisers have been guided and inspired by their messages. These include:

   a) the growing complexity and diversity of technical cooperation needs of the developing countries, and the consequent requirement to adapt modalities of cooperation accordingly;

   b) the need to reinforce national capacities to coordinate and manage technical cooperation programmes while bringing programme responsibility, management and oversight as close to the country level as possible;

   c) the importance of UN agencies acting as a coherent system at the country level in response to the needs of recipient countries;

   d) the need for a programme approach in place of the project by project method;

   e) the perception that the quality of technical backstopping and support from agencies has declined.

7. The General Assembly and ECOSOC, as well as the UNDP Governing Council, have drawn on these insights in shaping their guidance to the system. The pattern of change recommended includes the following main elements: active measures to strengthen and utilize national capacities; adoption of a programme approach, which includes the responsibility for Governments to situate UN programmes in national technical cooperation programmes; decentralization of capacity and authority to the country level; the coordinated provision of technical advice and backstopping by the UN system under the leadership of the Resident Coordinator; simplification and harmonization of working methods to reduce unnecessary burdens on Government; and effective discharge of accountability responsibilities by all relevant partners.
8. The UNDP Governing Council, in the 37th session, is to take a decision on national execution that will provide the context for the application of successor arrangements. The shift of responsibilities for all phases of programme and project management to governments should be vigorously pursued and accelerated within a limited time-frame in compliance with resolution 44/211. Agency involvement is expected increasingly to concentrate on the provision of specialized inputs, policy and technical support to the programme, and agency involvement in project execution is expected to decline.

9. Such a shift should take place through a smooth transition phase which will ensure that national capacities to undertake programme and project management responsibilities are strengthened by UNDP and the UN system through concerted and major efforts for which resources should be provided. In particular, and in order to enable the Governments to be in a position to take full responsibility for the management of the implementation of programmes, UNDP should support them in response to their requests, inter alia, in establishing and strengthening technical cooperation management structures with special attention to be given to technical appraisal and administrative capacity to coordinate, manage, and execute development assistance received from all sources. For their part, the specialized agencies should assist by adapting their functioning to facilitate the provision of integrated multi-sectoral programmes and advice.

10. The transition period should also allow and provide for opportunities aimed at facilitating the adaptation of agencies towards sharper focus on the provision of technical advice and backstopping to respond to changing needs of developing countries. In this connection, any reduced involvement of agencies in execution should not be abrupt and disruptive. All on-going projects which will continue into the next cycle should normally be governed by the present support cost arrangement until completion. The new arrangements would apply to programmes and projects approved in the next cycle. A second measure is to provide where necessary for a continuation of a negotiated infrastructure for backstopping for a limited period.

11. Together with the shift of management responsibilities to Governments, we feel it is incumbent on the UN system as a whole to take specific measures during the transition period to adjust
to the new emphasis and to facilitate the implementation of changes. In particular, and as stressed in relevant intergovernmental decisions, there is need to pay special attention to the following:

a) adaptation of capacities of field offices;
b) decentralization of operational activities and further delegation of authority to the field;
c) adaptation of rules and procedures governing national execution;
d) strengthening of accountability and the adaptation of procedures and mechanisms for national execution.

12. The role of agencies as sources of technical and specialized advice for UNDP supported programmes continues to be essential. Agencies will need to give greater emphasis to providing full support to programme development and sector analysis. These and similar services are needed in the various stages of the project cycle whether or not a particular agency is responsible for implementation services.

II. SPECIFIC ELEMENTS FOR A FRAMEWORK

13. I believe there is broad, not necessarily unanimous, agreement among the members of the Bureau and Advisers that the successor arrangements should be based on considerations comprising at the least the following elements:

a) Government/National Execution

14. As I have already indicated, the decision on national execution by the Council in the coming session will help shape the new successor arrangements. We are all agreed that a new arrangement must not only be compatible but facilitate the use of this modality.

b) Financing of Support Costs

15. Conceptually, there are three aspects of support services in which agencies can be involved. These are mandated services (which are illustrated in a – f of para. 402 of the Group of Experts' Report;), technical and analytic support for programmes; and project level services. It is assumed that mandated services will continue to be provided by agencies through their regular budgets. The main financing issues which arise in relation to UNDP funding
of support services thus relate to the financing of programme level services (illustrated in g - k of para. 402) and in the administrative and technical support of projects. In these connections, the fundamental questions are:

- whether to introduce UNDP financing of some technical support services at the programme level;

- and on what basis to finance project related services, including the sharing of costs between UNDP and agencies in accordance with current practice under the tripartite arrangement.

16. On these two points, the Bureau and advisers are agreed that technical support services at the programme level should be financed in some measure by UNDP and that the sharing of costs at the project level should continue.

17. The general disposition is also to transfer a large proportion of the previous support cost line to the IPFs and to finance much of the project support from project budgets. The present support cost line in its current form could therefore conceivably disappear.

1) Technical Services Support (TSS)

18. Technical services support in this context relates to the establishment in UNDP of a centrally managed pool of resources to finance programme level technical services to be provided by agencies (for example, the services listed in g - k of para. 402 in the Expert Group Report). Services would be identified on the basis of projected demands reflecting national and regional requirements. Payments would be made for services identified or rendered on the basis of demands from country programmes and negotiated with each organization to cover a two-year period. The financial ceiling for such services would need to be decided by the Council.

19. Before the expiry of the present regime, the Administrator, prior to instituting the successor arrangements, should review with each agency the services likely to be required of them and their capacity to provide the necessary technical support to the UNDP-funded programme, including any necessary measures to improve the effectiveness of their cooperation. UNDP would enter into financial commitments which will cover a two-year period with each organization.
20. Institutions which do not require technical services support would be compensated for their activities at the project level.

ii) Project Related Services

21. As I mentioned earlier, there is a general disposition to charge much of project support to project budgets. The question of compensation for support services at the project level continues to raise complex policy and technical issues. These include the following.

a) How to calculate the cost of services rendered? Actual costs, or a rate system? Our disposition is to avoid cumbersome project-by-project negotiations and to request the Administrator and agencies to develop differentiated standard rates for categories of services. The Council would need to specify the financial framework for this compensation.

b) Should UNDP finance part of the technical backstopping for projects? How should the sharing of support costs between agencies and UNDP be defined?

c) Should support services charged to project budgets be limited to implementation services, or include pre-project and post-project services, such as formulation and evaluation?

d) If project support under the new regime would be more costly than the amount transferred from the support cost line to IPFs, would it be possible to increase IPFs commensurately?

e) At what level and how should governments be recompensed for support services in nationally executed projects?

III. ISSUES FOR FURTHER CONSULTATION

22. There was broad agreement on the application of the preceding considerations and specific elements to construct regime/regimes for successor arrangements. However, on some issues further discussion is needed. I particularly invite your views on the following outstanding points:

a) The advisability of having two separate arrangements for charging project budgets with project-related services requires further deliberation.
i) Particularly for the main executing agencies, FAO, UNIDO, DTCD, ILO, UNESCO and UNDTCD, a differential rate system for different services, along the lines of the CCAQ(FB) proposal could be developed. Project budget would finance a specified portion of those costs. The rest would be assumed to be the agencies' contribution to the financial aspect of partnership.

ii) Other agencies could have the option to be reimbursed under the present formula.

b) UNFPA

The desirability of a separate cost arrangement for UNFPA should be considered within the context of a decision on a new successor arrangement. There is a case however for a separate arrangement for UNFPA which can be allowed to negotiate whatever arrangements are appropriate with agencies and NGOs.

c) Trust Funds

The applicability of a new arrangement to Trust Funds should also be examined in the light of the Council's decision on the arrangement for UNDP. However, an issue for further consideration is whether there should be, as in 1980, a recommendation which enjoins other agencies to follow the regime applicable to UNDP.

d) As I indicated earlier, the level of transfer of support cost resources to the IPF is a subject for further consideration.

e) The question of whether Governments should be reimbursed for both technical and non-technical backstopping has been a subject of extensive discussion but on which there is need for further consultations. To resolve this issue, two views have been put forward. One proposal is that the actual cost of project implementation support (estimated at 19.1 per cent in 1974) be added to country IPFs in order to maintain the real value of the IPF assistance and provide incentives for implementation. Another view is that the benefits for developing countries should not be considered from the level of financial transfer aspect alone. National execution and the increased use of national institutions could lead, in addition to substantial savings, to more effective national
capacity building and better involvement and stronger leadership on the part of governments in the utilization of technical cooperation resources. However, there is agreement that governments should at the minimum be able to draw upon the support cost provision at the current 13% rate to finance implementation and capacity building.

NGOs and non-UN entities

A support cost arrangement for UNDP need not apply to NGOs and non-UN entities which will remain sub-contractors to agencies or governments.

IV. ITEMS FOR FURTHER CONSIDERATION BY UNDP AND AGENCIES

23. UNDP and the agencies could develop, within the framework of a general decision by the Governing Council, the specific methods or arrangements for, among others, the following:

a) system of rates for reimbursement of implementation costs;

b) joint determination of required technical services, based on demands from country programmes, and their financing under technical services support;

c) safeguards against exchange rate fluctuations taking into account the options proposed by the Expert Group for this purpose. Fluctuations in exchange rates are "crucial" issues with serious implications, especially to the smaller agencies. UNDP and agencies need to agree on a mechanism to address this problem. The options proposed provide a good basis for choice and agreement.

In closing, I would like to stress again that your comments and views on the identified elements and issues will be crucial in helping us progress towards the finalization of this phase of our work.