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

I. INTRODUCTION

A. Background

1. This report responds to Governing Council decision 90/5 of 23 February 1990. In that decision, which in turn responded to General Assembly resolution 44/211 of 22 December 1989, the Council requested the President of the Governing Council to convene open-ended consultations with members of the Programme on the report of the Group of Experts with a view to providing recommendations thereon to the Council at its thirty-seventh session (1990). Furthermore, the Council also requested the Administrator and the Executive Director of the United Nations Population Fund (UNFPA) to submit written comments on the report of the Group of Experts; the Executive Heads of all executing agencies were also invited to do the same.

2. The Governing Council decided that 10 advisers, selected on the basis of proportionate geographical distribution, and knowledgeable of the operations of the United Nations system development activities, should assist the Bureau in undertaking appropriate analyses and consultations with UNDP and other United Nations system organizations, to ensure a clearer view of the implications of various options recommended by the Group of Experts. A list of the names of the advisers appears in the annex.

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3. The Bureau of the Governing Council and the advisers have reviewed the report of the Expert Group on Support Costs, the comments and recommendations from UNDP, UNFPA and the executing agencies, as well as the report of the Task Force of the Consultative Committee on Substantive Questions Operational Activities (CCSQ(OPA)), which were made available to all members. They have held discussions with UNDP and UNFPA, the secretariats of the six largest executing agencies (measured by the size of their UNDP-financed programming), one small technical agency, and some other agencies based in Geneva and Washington (see addendum, the statement of the President of the Governing Council at the open-ended consultations of members of the Programme delivered on 2 May 1990). A number of the agencies responded in writing to a questionnaire prepared by the Bureau and advisers. Specific elements from these submissions have been taken into account in considering possible successor arrangements.

4. The open-ended consultations were held in New York on 2 May and on 15 and 16 May 1990, with the participation of a substantial number of members of the Programme and of representatives of United Nations agencies and organs. On these occasions the President presented his progress reports, which are available as an addendum to the present document. Many delegations made comments which have been most useful as general guidance for the work of the Bureau and advisers.

B. Policy considerations

5. The progress report given by the President on 2 May 1990 outlined the principles by which the Bureau and advisers intended to be guided. These principles received broad endorsement by the members of the Programme. They are indeed valid principles for all the ongoing attempts to improve the working of the United Nations system of operational activities.

6. The present report concentrates on specifics, looking particularly towards the matters on which the Governing Council needs to take a decision. The important, but by now familiar, background considerations which were dealt with, especially in the statement of the President on 15 May 1990, are not repeated.

7. However, the novel purposes behind the proposals being made on the limited issue of successor arrangements are emphasized. The proposals are intended to make possible and to encourage the practice of recipient Governments managing projects financed by the United Nations funding agencies and to assist the major partners of UNDP to adapt to a changing role in United Nations technical co-operation.

8. The Governing Council will consider under agenda item 4 (b) (x) the Administrator's proposals on national execution, and the implementation of any changes in definition and approach. The recommendations herein do not depend on any particular definition of national execution, but are drawn up on the assumption that governments will wish increasingly to take on the management of United Nations-financed projects and to carry out the administrative functions which in the past conventionally have been carried out by United Nations agencies. They assume that Governments will wish increasingly to use the capacity of local and international organizations outside the United Nations system for the implementation of projects which are appropriate for financing by UNFPA and particularly UNDP. While it remains the normal role of technical co-operation both
from the United Nations and other sources to develop this capacity by projects and programmes, the recommendations, in keeping with General Assembly resolution 44/211, involve specific assistance in the fifth programming cycle for strengthening the capacity of Governments to take on the management of projects. They are also intended to facilitate the widening of the options for the implementation of projects by the greater use of local capacity.

9. Also envisaged is a parallel reduction of the role of the agencies in the direct execution of projects and their adaptation to a role which emphasizes their technical inputs rather than project administration. A reduced role in execution will also apply to the Office of Project Services (OPS). The pattern of this change is well developed in the report of the Expert Group. It was also discussed in the meeting of the Working Group of the Committee of the Whole on 14 May. Major changes are unlikely in the role of the unisectoral agencies or agencies offering a discrete service but of a non-sectoral nature, and perhaps in other cases. The role to which some agencies may adapt would involve a greater emphasis on assistance to countries at the programme level and technical support to the project cycle. The change could have implications for the structure and staffing of the organizations, for which transitional support may be required.

C. Analysis of options for successor arrangements

10. Paragraphs 4 and 7 of Governing Council decision 90/5 call for analysis of the options identified by the Expert Group. This was done in the progress report on 2 May 1990. Rather than revisit the options in chapter VII of the report of the Expert Group, reference is made only to elements in the options which have been drawn upon in the proposals, so as to help members place the recommendations in the context of that report. As the Expert Group envisaged, elements from the various options have been used.

11. The recommendations put forward are not based on the proposition implicit in option 1 of the Experts, namely that UNDP finance only the administrative and operational cost of backstopping projects. They show a preference to the proposals in other recommended options that, in certain cases, technical backstopping be financed. Although the option of finance by UNFPA or UNDP of posts, as envisaged in option 1, is not ruled out, the proposals for UNDP draw more from option 2, which suggests the selective financing of services. From option 2, the idea of the need to begin to delink payment for support services from programme or project implementation is taken. Ideas about the freedom of Governments to select implementation modalities are borrowed from option 3. Option 4, involving no change, is also applicable where in fact no change is needed. One will identify in the recommendations ideas drawn from the papers by UNDP, UNFPA and CCSQ(OPS), and individual agencies, even when these arrangements have not been specifically mentioned.

D. Régime for UNFPA

12. Governing Council decision 80/44 of 27 June 1980 first applied the support cost régime then existing to UNFPA. A complex system has since developed, with
UNFPA financing posts as well as paying 13 per cent in support costs, and paying some direct costs from project budgets. The situation of UNFPA is quite different from that of UNDP. It was not covered by the 1970 Consensus, and the population field was a new one, without extensive capacity in many agencies. Given the distinct technical and operational requirements of UNFPA programmes, there is no particular reason for requiring the same régime for UNFPA as for UNDP, where a particular concept of partnership is enshrined in the 1970 Consensus and other legislative backing. UNFPA therefore could be asked to develop a proposal designed for its programme needs for consideration by the Council, which can then consider whether it should be integrated into a wider régime which includes UNDP, or whether it should stand alone.

E. UNDP: Agency participation in programme support

13. The technical partners of UNDP are, in the main, the specialized agencies or other United Nations bodies where, as illustrated in paragraph 402 of the report of the Expert Group, the regular budget finances services of direct value to UNDP. An essential element underpinning the unique multilateral character of the Programme and its capacity to give neutral advice is the willingness and availability of these agencies to provide advice to UNDP in their sectors of competence, regardless of implementation arrangements. This should continue. It is also clear for reasons set out in the statement of the President of 15 May 1990, that the capacity of agencies to provide technical support to UNDP fifth cycle programmes needs to be strengthened, especially with respect to supporting the shift towards a programme approach for United Nations technical co-operation.

F. Technical services support

14. There is wide acceptance of the idea of the financing by UNDP of programme-level technical support to be provided by agencies. These resources should be managed centrally by UNDP, as are the present support cost line and the sectoral support provisions.

15. It is recommended that the Governing Council consider setting aside a sum of money for what could be called technical services support. Its use would be much as described in the proposals of the Administrator on the subject. In cases where technical support from UNDP sources seemed likely to be necessary, UNDP would negotiate with agencies, a programme which UNDP would finance in whole or in part, based on expected demand as shown by the country programmes and taking account of regional and subregional priorities. The arrangement would be for a two-year period, based on a forward-look over three years. The arrangement could be limited to the major sectoral agencies, together perhaps with the smaller agencies of the United Nations itself. It is not necessarily envisaged that arrangements of this degree of complexity are necessary with the smaller unisectoral agencies, although it is envisaged that the present arrangements for sectoral support, designed largely to deal with the lack of field representation of these agencies, would continue. It is noted that the Administrator has proposed that the arrangements for sectoral support as it currently exists should be reviewed by the Council at its thirty-eighth session (1991).
16. At this stage, the Governing Council could limit itself to deciding
(a) whether to establish such a facility and (b) how much to appropriate for it in
the fifth cycle. It could then request the Administrator to prepare a detailed
proposal in consultation with the agencies for consideration by the Governing
Council at its thirty-eighth session. The individual arrangements may need to be
agreed upon by the governing bodies of the agencies concerned. An additional
thought is that the technical services support should be relatively modest in
relation to the regular programme of the agency concerned.

II. PROJECT LEVEL SERVICES FOR UNDP

17. With respect to the issue of support services at the project level, a
two-phased decision-making process should be envisaged. At its thirty-seventh
session, the Governing Council can set out the policy which should shape the
successor régime. It should then request the secretariat to work with agencies to
develop operational modalities for subsequent consideration.

18. In terms of the policy features, the Bureau and its advisors have reached a
significant level of agreement. The successor arrangements should remove
impediments to and provide incentives for the shift towards national execution and
a technical focus by agencies. It is also believed that, with the expiry of
existing arrangements, the Administrator should discuss with each agency its
capacity and willingness to provide requisite services in their sectors of
competence, with a view to resolving problems or making proposals for improvements
which ensure the availability of mandated services and technical support.

19. As stated in the statement of the President on 15 May, the project level
issues which need to be considered are:

(a) How to calculate the cost of support?

(b) Should UNDP finance part of the technical support for projects?

(c) How should the sharing of support costs between UNDP and agencies be
declared?

(d) Should support services, at the project level, be charged to indicative
planning figures (IPFs) or centrally managed, or should there be some combination
of the two?

(e) If overall support costs charged to project budgets are more costly than
the resources transferred from the support cost line to IPFs, would it be possible
to increase IPFs commensurately?

(f) At what level and how should Governments be recompensed for support
services in nationally executed projects?

20. On these questions, the following comments are put forward to the Governing
Council for its consideration:

/...
(a) It would be desirable to have a more realistic appreciation of the cost of providing support services. Ideally, cost-measurement instruments would provide the empirically based data. The Council may wish to consider the use of such instruments. It is proposed that cumbersome project-by-project negotiations be avoided and efforts made towards the development of standard rates for different clusters of services. The proposal by the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)) and the second proposal by the United Nations Industrial Development Organizations (UNIDO) illustrate different clusters. At this stage, the Council should request the Administrator to collaborate with agencies to update cost estimates and to develop a proposal for differential rates. While the Council will wish to see the estimates of the actual costs, the proposal to the Council should be formulated to reflect the desire to retain the principle of cost-sharing between partners. It should also reflect the desire of the Council to keep to the necessary minimum the level of finance provided for administrative and operational support and thus contribute to cost-effectiveness;

(b) In reference to technical support, technical services related to projects (apart from implementation services) relate primarily to formulation, technical appraisal, technical monitoring and evaluation and other services required by UNDP. UNDP should finance part of the technical costs in support of efforts to improve programme quality. In doing so, the Council would provide additional incentive for a greater technical focus in agencies relative to administrative functions. This issue of whether UNDP should finance technical support arises from the common belief that the 13 per cent now paid is primarily for administrative and operational support and that the technical support is usually provided by agencies from their regular budgets. The actual situation is, in fact, variable, with some agencies now financing at least part of their technical input from the support-cost earnings. Some of the functions identified above are clearly now financed partly by UNDP, e.g., formulation, which is addressed by the preparatory assistance, financed from the IPF, and the Project Development Facility (PDF), financed from the Special Programme Resources (SPR). So, too, are mid-term reviews and evaluations (usually IPF, sometimes SPR). This issue has never been very clear cut. For the future, the costing exercise described above should also address the factor of technical support and devise a compensation rate. The guidance given to the Secretariat in pursuing this work in detail should reflect a willingness by the Council for UNDP to finance a larger share of technical support than in the past, as against the desire to keep to the minimum outlays for administrative support. It is, nevertheless, expected that the sharing of costs between UNDP and agencies would be especially evident in this area;

(c) Resources for administrative and operational support should be transferred to IPFs and funded from there, in order to strengthen national responsibility for the management of the project cycle. Resources for technical support should be managed centrally. In being managed in this way, they could be added to the technical services support (described above as being for programme-level services) and thus form part of the negotiation with agencies. Alternatively, they could be retained centrally, but released on a project-by-project basis. The latter course permits a more detailed negotiation of the technical services required for each project with the co-operating partner;
(d) The current centrally managed resources for the support cost line, designed for administrative support for projects, should be transferred to IPFs and displayed as a sub-line for administrative and operational support. Since the Council agrees that as a matter of policy, resources expended for administrative support should not exceed the current levels, and preferably be below them, the question of charges to IPFs in excess of transfers from the old support cost line will not arise. It would, of course, be necessary to draw upon central resources to finance the new technical services support and technical project-level support;

(e) National execution will be the subject of a separate decision. It is expected that the Council will make provision in that decision for capacity development to expedite national execution. Incentive for national execution should additionally be created by ensuring that the resources not paid to United Nations agencies are made available for use within the country programme.

Exceptions

21. There appear to be no major disadvantage to the continuation of the present arrangements for certain agencies. Among these might be those for which the present arrangements have marked advantages in ease of administration, such as the banks; agencies where the technical co-operation work is so marginal that the administrative and operational costs can be contained within the present arbitrarily set figure; and any major sectoral agency where technical backstopping is readily available from budgetary sources because of the view taken by its governing body of its technical co-operation mandate. In the case of such agencies, the present arrangement could be continued subject to any decision which the Governing Council might wish to take as regards raising or lowering the standard rates.

Small agencies

22. A continuation of these arrangements is also recommended for the agencies currently benefiting from flexibility arrangements, taking account of inflation since 1980, and with a provision to avoid the disadvantage of major changes in the thresholds. One of the points which the Governing Council would need to decide is whether flexibility arrangements should apply not only to autonomous bodies but also to agencies which are part of the United Nations itself and are currently excluded by paragraph 3 of Governing Council decision 81/40 of 30 June 1981. The arrangements for smaller agencies on these lines would need to be designed so as to be compatible with any decision to transfer the payment of support costs to IPFs. It is suggested that the Administrator be asked to provide specific proposals to the Council at its thirty-eighth session (1991).

Encouragement of a cost-measurement system

23. During the consultations, the desirability of a generally acceptable cost-measurement system to ensure the transparency of the financial arrangements on support costs in both UNDP and the agencies was raised. If the Governing Council believes that this is a priority, it could consider the possibility of providing an incentive to the introduction of such a system more widely than is currently the
If this idea commands wide support, the Administrator could be asked to develop a more specific and costed proposal in consultation with the agencies.

Currency fluctuations

24. There is general agreement that the present arrangements provide inadequate safeguards for agencies against exchange rate fluctuations, especially for smaller agencies. The options proposed by the Group of Experts provide a good basis for choice and agreement. Further work and consultation between the Administrator and the agencies is required before specific proposals can be brought to the Governing Council, especially in view of the proposal to transfer support costs from a central provision to the project budget. Such proposals should have no net cost to the Programme over time. Provision should be made, if necessary, for adjustments in payments under technical services support.

Non-governmental organizations

25. It is recommended that the support-cost arrangement proposed for UNDP should not be applied to non-governmental organizations (NGOs) and organizations outside the United Nations system. It would be appropriate that such organizations continue to be sub-contractors to Governments, agencies, or OPS and the cost of the services of these bodies be paid from project budgets arrived at by the normal processes of negotiation or competitive bidding.

Transitional arrangements and timing

26. The new arrangements would formally come into effect on 1 January 1992. Projects started before then would continue under the current arrangements until the end of the project life, both as regards levels of support and payment from the central provision.

27. Attention has been drawn to the desirability of building into the arrangements transitional measures to permit adjustment by both agencies and Governments to any new system for support costs and to the changing functions envisaged for Governments and agencies. The need for transition will be influenced in part by the successor régime per se and, more importantly, by the characteristics of the forthcoming decision on national execution and the pace of its implementation. These not having yet been decided, it is difficult to make a precise forecast. Some members of the advisory group have developed specific proposals in this regard.

Trust funds

28. Governing Council decision 80/44 urged governments and governing bodies of agencies "to apply the support costs reimbursement arrangements described above also to technical co-operation activities financed from all other extrabudgetary sources, including trust funds or similar funds". It will be necessary for the Council to decide whether such guidance should be given from the Council as part of the new arrangements on support costs, or whether the matter should be left formally to the governing bodies of the agencies concerned. It is recommended that
the Council decide upon this after taking a decision on the nature of the support-cost arrangements for UNDP and UNFPA central funds. It is not proposed to make any specific recommendations beyond this.

29. However, among the points made by members of the Programme of which the Governing Council would wish to take account is the following. It became clear to the Bureau members and their advisers that the extent to which the secretariats and the governing bodies select and control trust funds differs widely between the agencies. In some cases, trust funds are handled in such a way that it is appropriate that they be treated on a par with UNDP financing; there is no obvious reason why any contribution the agency makes towards backstopping UNDP projects should not be extended to trust funds. In other cases, the trust fund facility is primarily a service to a donor, which in some cases is also the recipient, and the reason for a regular budgetary contribution is less obvious. In light of this, there would seem to be difficulties in recommending with any confidence that whatever arrangements are agreed for UNDP should in principle be applied to trust funds and other extrabudgetary resources of other agencies.

**UNDP and UNFPA trust funds and other programmes**

30. It is recommended that the Governing Council request the Administrator and the Executive Director of UNFPA to examine the implications of the expiry of the present arrangements, in accordance with paragraph 2 of decision 80/44, and the recommendations of the Council at its thirty-seventh session on trust funds and other funds within their responsibility, and to present to the Council at its thirty-eighth session (1991) any necessary proposals for the charging of support costs to these funds or bodies.

**Term of the new arrangements**

31. The Governing Council will need to consider whether the new arrangements should, as previously, have a life of 10 years, or cover a shorter period, such as the fifth cycle. It is recommended that, as far as possible, the arrangements should have a 10-year validity, but that there should be a provision for a review of certain elements; those for which specific financial provision is needed in the fifth cycle should be considered initially only for that period.

32. In particular, it is recommended that the technical services support should be reconsidered in the preparations for the following cycle and that any arrangements which have in them figures significantly affected by inflation, such as the thresholds for the flexibility arrangements for smaller agencies, should be reviewed after five years. It is also envisaged that the arrangements for the payment of support costs, which, it has been suggested, should be finalized next year, would need to be reviewed within five years at the least.

**Matters on which no recommendations are made**

33. On two related matters a deliberate decision has been made not to put forward recommendations since these are affected by the key issue on which a political decision is required: the extent to which the cost of agency support for the
Programme should be borne by voluntary funds or by the regular budgets. This is an aspect on which members will have their views as voluntary contributors to UNDP and assessed contributors to the agencies. One point is the level to be set aside for technical support at the programme and project levels, to be managed centrally. The second is the level of support costs payable to the agencies from IPFs for administrative and operational support. Presumably, the Governing Council will wish to consider these two together and to compare the total costs of support for the agencies, for a comparable level of service, with the current cost. In earlier sections, the proposal is made for measures to update cost estimates for these services and to establish differential rates for payment. In the light of the discussion on the fifth cycle, the Council may wish to consider establishing in this context an overall level within which these exercises should be developed.

Decision-taking

34. It appeared from the open-ended discussions on 15 and 16 May 1990 that the membership was sympathetic to the idea of adopting a decision at the thirty-seventh session which would establish a framework for policy precepts and give appropriate guidance to ensure that proposals for precise arrangements are fully worked out between the Administrator and the agencies for consideration and action by the Governing Council at its thirty-eighth session. The financial implications of the changes would also need to be worked out over the year between the Council meetings. A similar timetable would be applicable to UNFPA.

35. The framework the Governing Council could decide on at its thirty-seventh session could include the following:

(a) The overall levels for support cost;
(b) UNFPA to have a separate régime;
(c) Provisions in the fifth programming cycle for technical support services of a specific financial magnitude;
(d) How to finance technical support at the project level;
(e) The issue of financing from IPF payments to agencies for administrative and operational support to projects;
(f) The transfer of the old support cost line to IPFs;
(g) The question of financing support services to projects on the basis of differential rates for clusters of services, at least for the major agencies;
(h) Protection against currency fluctuation to be incorporated in the new arrangements;
(i) The term of the new arrangements.
Subsequent decisions

36. UNDP and UNFPA, in consultation with the agencies, would submit detailed proposals on a number of issues. Based on these submissions, the following issues would be left for subsequent decisions by the Governing Council:

(a) Detailed arrangements for UNFPA;

(b) Rates for administrative and operational support to projects by agencies;

(c) Basis for financing technical support to projects;

(d) The UNDP régime for small agencies;

(e) The coverage of currency protection for agencies on project execution, and if necessary for technical services support;

(f) Detailed proposal on technical services support;

(g) The need for transitional protection for agencies especially affected by a switch to national execution;

(h) Arrangements for UNDP and UNFPA trust funds and other funds which are the responsibility of the Administrator;

(i) The validation of any agreements with agencies over the continued provision of support services and their continuation as executing agents.
Annex

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 Tunisia to the United Nations

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

Mr. Carlos Alberto Gianelli, Counsellor, Permanent Mission of Uruguay 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. Garth Pettitt, Head of the United Nations and Commonwealth Department, Overseas Development Administration, London, United Kingdom of Great Britain and Northern Ireland