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POLICY

AGENCY SUPPORT COSTS

Expert group on the study of issues connected with
agency support costs

Report of the Administrator

SUMMARY

In its decision 88/50 of 1 July 1988, the Governing Council requested the Administrator to make a proposal to the Council on a study of successor arrangements to agency support costs. The attached terms of reference contain the Administrator's proposal.

In addition to proposing the composition of the group, its working methods and the timetable for the study, the Administrator has also elaborated on the main issues which the study should cover. The Administrator makes these proposals after consultations with members of the Council and with United Nations agencies.

I. BACKGROUND

1. In paragraph 34 of resolution 42/196 of 11 December 1987, the General Assembly invited the Governing Council to consider a successor to the current arrangement for project support costs. The existing arrangement, under which agencies are paid support costs at the standard rate of 13 per cent of project expenditures, has been in place since 1982 and is due to expire at the end of 1991. In decision 88/50 of 1 July 1988, the Governing Council therefore decided "as a means of facilitating its consideration of the most appropriate successor arrangements, to establish a small group of experts in the field of international development to make a thorough study of all the relevant issues and to make available its recommendations no later than 28 February 1990". In its decision, the Governing Council specifically requested that the terms of reference of the expert group should include, inter alia, proposals on:

(a) The best way for the United Nations Development Programme to provide technical assistance to the developing countries, taking into account the evolution of new modalities for technical co-operation, as well as the capacity of the United Nations system to provide the required services;

(b) Appropriate compensation arrangements to the United Nations agencies, Governments and other providers of services for United Nations Development Programme-funded projects on a basis which ensures enhanced accountability, project quality and maximum cost-effectiveness;

(c) The manner in which the United Nations Development Programme, executing agencies and Governments would participate in this exercise;

(d) Alternative arrangements between the United Nations Development Programme, executing agencies and Governments in the execution of United Nations Development Programme-financed activities, both projects and programmes.

II. SCOPE OF STUDY

2. In order to arrive at recommendations for successor arrangements to existing agency support costs, the expert group will have to look into a wide range of issues. The existing tripartite relationship of recipient Governments, executing agencies and the United Nations Development Programme (UNDP), of which the support cost arrangement is a part, was established over 30 years ago. Since that time, the needs of developing countries and the response of the United Nations system to these needs have changed significantly. One of the prime objectives of the study, therefore, should be to review existing relationships and procedures of operational activities of the United Nations system in the light of present and future needs of developing countries. In carrying out this review, the following subjects should receive detailed consideration by the expert group.

A. The tripartite system of United Nations Development Programme technical co-operation

3. Within the overall framework of the partnership concept of United Nations system technical co-operation, and in the light of the evolution of the tripartite arrangement, the roles and functions of the three partners should be reviewed. This would involve clearly defining the relationships among the three parties, bearing in mind the overall accountability of the Administrator for the programming and disbursement of UNDP funds. The accountability of agencies and Governments in this partnership should also be considered. The expert group should review various proposals to ensure the accountability of the respective three partners in order to improve the quality and cost effectiveness of programmes and projects.

B. The involvement of specialized agencies in providing support to operational activities financed from voluntary funds

4. The capacity of the United Nations system to provide technical co-operation should be considered in detail. It is necessary to differentiate between substantive technical and research capacities existing within organizations and the financial resources available for their full utilization in policy dialogues with Governments, sectoral analyses, programme and project work.

5. The dual role of agencies should be considered in this regard: on the one hand, their role of providing sectoral studies and advice to Governments through their regular programming activities, and on the other, their role in the programming of technical co-operation and involvement in project implementation. Interlinkages between these two roles should be analysed.

6. The expert group should review other sources of expertise available to advise Governments and to assist them in the formulation and execution of projects. This would include, *inter alia*, direct links between universities, research and training institutions (twinning arrangements), Technical Co-operation among Developing Countries (TCDC), know-how available through the private sector, e.g., consulting firms, multinationals and non-governmental organizations (NGOs).

C. Funding of technical co-operation in the United Nations system

7. The erosion of the central funding role of UNDP is a factor influencing UNDP/agency relationships and should be considered. The study on central funding being undertaken by the Director-General for Development and Economic Co-operation is most relevant and should be taken into account. The study should address the perceived competition between UNDP and agencies for the funding of technical assistance through the establishment of agency trust funds and multilateral and bilateral arrangements between specialized agencies and donors.

8. The issue of whether multilateralism is affected by the increase of such funding modalities *vis-à-vis* core funding should also be addressed.

D. Alternative arrangements for project execution

9. Special attention should be given to reviewing the three execution modalities for UNDP-funded projects, i.e., agency execution, Government execution and direct execution, to what extent the role of the three partners has evolved, and the impact of the evolving relationship on the self-reliance of recipient countries.
10. The study should address the issue of agency involvement in project implementation under the latter two modalities, especially Government execution. In considering this, the study should draw a distinction between technical and substantive inputs versus administrative and managerial aspects of project formulation.
11. The study would review what would be the most efficient and cost-effective way of dealing with the separate segments of the project cycle.
12. A review of executing modalities of other funding organizations of the United Nations system (e.g. the United Nations Children's Fund (UNICEF), the World Food Programme (WFP) and the International Fund for Agricultural Development (IFAD)) should be carried out, bearing in mind their mandates.

E. Appropriate compensation arrangements

13. The first issue that should be considered under this heading is the sharing of support costs between UNDP and agency regular budgets. The study should review the validity of the perception that the whole system is volume driven, inducing agencies to maximize their share of projects in UNDP-funded programmes.
14. It would be useful if in their report the expert group were to examine alternative options for successor arrangements to the existing support cost system, listing positive and negative aspects of each option. Options could range, e.g., from an arrangement where UNDP would pay agencies actual costs incurred, through UNDP paying fixed amounts to agencies, to no support costs payments at all. Under this last arrangement, costs incurred by agencies in support of operational activities would be covered from their regular budgets.

III. ORGANIZATION OF THE STUDY

15. The study will be conducted by an expert group consisting of two to four members. The Council will select the members of the expert group. These individuals should be independent of the United Nations system. They should be highly regarded by the international community in order to have the confidence and full co-operation of agencies and UNDP as well so as to ensure that their recommendations will carry the necessary weight with the Governing Council. They should be of various backgrounds with knowledge and experience of international organizations. One of the members should have a strong financial background. Membership of the expert group should be fairly balanced between recipient and donor countries.

16. Full time secretariat support will be provided for the group. In addition, UNDP will put in place a task force which will make available existing reports, data and carry out research as required. Similarly, the Consultative Committee on Substantive Questions (Operational activities) decided to establish a task force, with a representative from the Office of the Director-General for Development and International Economic Co-operation as an observer. This task force will provide the consultative mechanism between agencies and UNDP as well as the advice and support to the expert group during its work.

17. In addition to working with UNDP and agency task forces, the expert group will maintain contact and consult donors and recipient members of the Governing Council as well as the governing bodies of specialized agencies.

IV. TIMETABLE

18. The timetable for the study is as follows:

(a) March 1989: finalize contracts with members of the expert group and conduct initial briefings;

(b) April-May 1989: group begins its work and decides on its work programme, which would include determining what information is required, special studies to be commissioned, UNDP headquarters interviews, field offices to be visited, and agency headquarters visits;

(c) September-October 1989: recommendations to be ready, circulated to agencies, and studied by UNDP, taking agency views into account;

(d) End November 1989: paper to be prepared for submission to the Governing Council at its meeting in February 1990.

V. ESTIMATED COST OF STUDY

19. The estimated cost of the study is given below.

	<u>United States dollars</u>
2 experts for 8 months each	160 000
12 m/m consultants <u>a/</u>	120 000
Secretarial support	36 000
Travel and daily subsistence allowance (DSA)	90 000
Office space	3 750
General operating expenses	<u>5 000</u>
Total <u>b/</u>	<u><u>444 750</u></u>

a/ Consultancy services will be used by the expert group for commissioning special studies as required.

b/ The total cost for three experts is estimated at \$584,400; for four experts at \$716,000.
