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GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Third session
January 1979

AGENCY SUPPORT COSTS

Draft decision under consideration by the Working Group on Support Costs

Addendum

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ANNEX I

The Intergovernmental Working Group on Support Costs.^{1/}

Recalling its decision of 9 June 1978 in which it outlined the criteria and guidelines on the basis of which the Administrator was requested to recommend a modified formula, in consultation with the Executing Agencies, for reimbursement of support costs; recalling further that in that decision the Working Group had specifically underlined the importance of adjustments to take account of economies of scale, nature and component mix of projects and method of execution,

Having reviewed, with appreciation, the report of the Administrator (DP/WGOC/25 and Corr.1) and the comments thereon by the Advisory Committee on Administrative and Budgetary Questions (A/33/7/Add.21) and the Joint Inspection Unit (DP/WGOC/26),

Taking into account the comments, observations and suggestions made during the discussion of this question,

Having continued the examination of this question bearing in mind the terms of reference and criteria laid down by the Governing Council in its decision establishing the Working Group at its 588th meeting on 29 June 1977, in which reference was made, inter alia, to the question of reduction of overhead costs with the purpose of achieving an overall reduction in programme support costs,

Recalling the statements in its decision of 9 June 1978 that overall programme and project support costs have reached significantly large levels, that any new reimbursement formula should provide an incentive to review and reduce overall support costs and that any UNDP funds released by a reduction of support costs would be fully available for additional programmes in developing countries through a corresponding increase in resources available for IPFs,

Believing that any reduction in UNDP reimbursement of support costs designed to make the System somewhat more rational cannot be regarded as automatically calling for an increase from other sources of funds or as a mere redistribution of costs among different sources,

Considering that the proposals contained in document DP/WGOC/25 constitute a constructive, pragmatic and practical system of modifications in response to the concerns and criteria outlined in the Working Group's decision of 9 June 1978,

Noting at the same time that the several organizations have not provided, or are not in a position, under present organizational and accounting arrangements and procedures, to provide specific information on identified support cost elements or comparable cost data relating to them,

Convinced, therefore, that efforts should be continued through appropriate forums of the several organizations, beginning with the General Assembly of the United Nations, to seek ways and means of instituting adequate arrangements and systems in the organizations designed to generate more reliable cost data which would give a clearer picture of actual support costs arising in respect of technical co-operation activities,

1/ This text will be recast as a draft decision of the Governing Council which the Working Group would recommend for adoption by the Council. Such recasting is already reflected in operative parts I and II.

Recognizing that such systems may be useful for the broader purposes of the organizations in providing better financial information to Governments going beyond the question of support costs; recognizing further that actions to bring about such changes and the collection and analysis of more reliable data based on such changes will take some time,

Convinced further that any long-term arrangements for reimbursement of support costs must be based on more reliable data of the kind referred to above, but recognizing that decisions based on such data will be difficult to bring about in time for the start of the third IPF cycle beginning in 1982,

Believing that the question of support costs reimbursement should be considered separately in its long-term perspective and for the intermediate term, including the third IPF cycle ending in 1986,

Believing further that for the intermediate term, the existing formula must be modified in the light of the criteria which were emphasized by the Working Group in its 9 June 1978 decision and which are reflected in the proposals contained in DP/WGOC/25,

I

The Governing Council,

1. Recommends to the Economic and Social Council of the General Assembly that they consider the question of seeking ways and means of instituting adequate arrangements and accounting systems in the United Nations designed to generate cost data which would give a clear picture of actual support costs arising in respect of technical co-operation activities and that they consider recommending to the other organizations of the United Nations system the adoption of similar measures designed to generate and provide cost data on a broadly comparable basis;

/ [Recommends that consideration should be given to the possibility of covering this aspect of the question in the **over-all study of operational activities for development which the Director-General for International Economic Development has been requested to prepare under General Assembly resolution entitled "Comprehensive policy review of operational activities" with particular reference to General Assembly resolution 32/197 on "Restructuring", Annex, Part V, paragraphs 28 (d) and 32 which, inter alia, foresee the reduction of administrative cost with a consequent increase in the proportion of resources available for assistance and maximum uniformity of administrative, financial and budgetary procedures.]

2. Decides that it will revert to the question of long-term arrangements for support costs as soon as such cost data are available and that, meanwhile, it would retain this item on its agenda (see also below);

**/ At the informal meeting on 23 January it was agreed that this paragraph would be deleted here and a suitable reference would be added in the Group's report or in a preambular paragraph to be decided.

II

3. Pending consideration and establishment of longer-term arrangements at a future date, recommends the adoption of the following arrangements for the intervening period:

A. The existing arrangements which have been authorized until the end of 1979 should be continued till the end of 1981;

B. A modified reimbursement formula including the following elements should be applied as an interim measure limited to the third IPF cycle 1982-1986:

(i) Flexibility arrangements

Agencies with annual programme delivery levels below \$15 million would be reimbursed in excess of 14 per cent upon presentation of detailed cost information justifying the increased reimbursement. The Administrator would authorize the amount of reimbursement and would inform the Governing Council of this action. Cases of special hardship arising from significant currency fluctuations and not already covered by the foregoing flexibility provisions would be referred, on an ad hoc basis, to the Governing Council;

(ii) Economies of scale

Agencies with annual programme delivery levels between \$15 and \$50 (75) million would receive, subject to (iii) below, reimbursement at the rate of 14 per cent of programme delivery. For the \$25 million portion between \$50 (75) and \$75 (100) million delivered, the reimbursement rate would be 13.5 per cent; between \$75 (100) and \$100 (125) million, the reimbursement would be at the rate of 13 per cent; and the amount over \$100 (125) million would be reimbursed at 12 per cent;

(iii) Nature and component mix of projects

For projects consisting of 75 (70) per cent or more of equipment and/or subcontract components, the reimbursement rate would be 7 (5) per cent of total project costs. The totality of these projects would be excluded on an Agency-by-Agency basis before reductions were made with respect to economies of scale. This provision would be superseded by (i) above in the case of Agencies with annual programme delivery levels below \$15 million;

(iv) Special arrangements with IBRD and UNDP/OPE

The present special arrangement providing for a consolidated reduced rate of 11 per cent reimbursement would continue in respect of IBRD. The present arrangements for approval by the Governing Council of the annual budget estimates in respect of support services for UNDP/OPE projects would also be continued;

(v) Method of execution

In the case of Government execution, Agencies would be reimbursed 14 per cent of the amount of the project elements they were asked to execute on behalf of the Government unless the services were provided for the procurement of equipment in which case the reimbursement rate would be as applicable under subparagraph (iii) above,

C. Decides that the Council will (periodically) (annually) review the results of operation of the interim arrangements on the basis of cost data to be submitted by each Agency based on the best possible calculations or estimates.

Annex II

Amendment offered by the Delegation of Finland to operative
paragraph 2 of part I of the Draft Decision

2. Decides to revert to the question of long-term arrangements for support costs and to retain this item on its agenda for the consideration of, inter alia, the following issues:

(a) Annual reviews of the results of the operation of the interim arrangements described in Section II below, undertaken on the basis of cost data to be submitted by each Executing Agency based on the best possible calculations of estimates;

(b) Assessments of progress made in the implementation of paragraph 1 above;

(c) Various options for a long term solution of the support cost problem, such as the establishment of a clear and detailed enumeration of the expenditures to be considered as support costs, methods of calculating support costs on a project basis, full disclosure of support costs to recipient Governments through their inclusion in project budgets and ways and means to provide incentives to all parties concerned to minimize overhead cost,

3. Reiterates its invitation to the Executing Agencies to provide information to the Governing Council on possible measures which could be taken to strengthen their procedures so that the actual level of support cost components can be more clearly identified.

Annex III

Amendment offered by the United States of America Delegation
on Paragraph 3 of the Draft Decision

Pending consideration and establishment of longer-term arrangements at a future date, recognizes that additional examination of interim arrangements for the Third Development Cycle is necessary, and therefore decides to consider this matter further at its June session, drawing upon such interim possibilities as continuing the present reimbursement arrangements, or adopting modifications of those arrangements recommended by the Administrator in DP/WGOC/25, or other suggestions which may arise at the June session. Further, requests the specialized agencies to provide more precise comments on the Administrator's recommendations for consideration by the Working Group and the Governing Council in June.
