

UNITED NATIONS DEVELOPMENT PROGRAMME



UNDP

DP/GC/XXV/WGOC/CRP.1
7 June 1978

ORIGINAL: ENGLISH

GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON OVERHEAD COSTS
Second session
June 1978, Geneva

The Intergovernmental Working Group on Overhead Costs

Draft decision suggested by the Chairman

1. Having reviewed, with appreciation, the Expanded Preliminary note submitted by the Joint Inspection Unit (DP/WGOC/21), the statement of the Administrative Committee on Co-ordination on the JIU proposals (DP/WGOC/22) and other documentation submitted to the Working Group at its second session,
2. Taking into account the comments, observations and suggestions made during the discussion of this question,
3. Having continued the examination of this question bearing in mind the terms of reference and the criteria laid down by the Governing Council in its decision establishing the Working Group at its 588th meeting on 29 June 1977,
4. Recalling that, at its first session, in January 1978, the Working Group had broadly endorsed the criteria for the definition of overheads (support costs) outlined by the JIU in paragraphs 7-11 of its first Preliminary Note (DP/WGOC/1),
5. Recognizing that the present reimbursement formula is a pragmatic and temporary compromise arrived at under certain particular circumstances and further that this formula does not respond to any of the variables in the situation, and in fact hides important variations, nor does it provide any incentive to economic management,
6. Noting that over-all programme and project support costs are rapidly reaching significantly large, and even unacceptable, levels and the consequent need to make every effort to reduce such costs in the interests of sound management,
7. Noting with appreciation the efforts made by Executing Agencies towards cost reductions and expressing the hope that those efforts will be continued and intensified,
8. Urging that any reduction in reimbursement resulting from the application of a new formula should provide an incentive to review and reduce over-all support costs and not be construed as implying that regular budget provisions should be thereby increased,

9. Noting that any UNDP funds released by a reduced level of reimbursement would be fully available for additional programmes in developing countries through a corresponding increase in resources available for IPFs,
10. Considers that any new reimbursement formula should be sufficiently practical and workable,
11. Regards the JIU proposal as containing a number of useful elements and as providing a logical approach in principle while recognizing that a formula seeking to cover adjustments for each of the variables identified may prove difficult to apply in practice,
12. Considers that a modification of the present formula should take account of:
- (a) Economies of scale, i.e. reduced reimbursement rates in respect of project expenditures in a given year beyond a stated total monetary level or levels, together with special provisions for the smaller agencies;
 - (b) Nature and component mix of projects, through the application of a lower percentage factor for equipment and subcontracts taking account, in this regard, of the practices already in vogue in many Agencies in respect of funds-in-trust and multi-bi projects; such lower percentage for equipment should not act as a disincentive to the inclusion of the desirable amount of equipment in projects, the final design and composition of which are the prerogative of the government concerned;
 - (c) Method of execution: principally, in cases of Government execution, the associated Agency would be paid overhead only in respect of specific inputs included in the project budget and delivered by the Agency at the request of the Government, the rate of reimbursement being according to the agreed new formula.
13. Considers further that the new formula could take account, but only if a simple one could be found, of variations in cost levels at headquarters of Agencies and of the provision of a measure of stabilization in the year-to-year variations in support cost reimbursements,
14. Believes that such a new formula should be developed through full and constructive co-operation among the Agencies and UNDP with the determination to produce a positive commendation,
15. Requests the Administrator, in consultation with the Joint Inspection Unit and the Executing Agencies, to recommend to the Working Group, at its session in January 1979, the elements of a modified formula reflecting the factors mentioned in paragraph 12(a), (b) and (c) and, to the extent possible, the factors mentioned in paragraph 13, to enable governments members of the Working Group to formulate an intergovernmental recommendation to the Governing Council,
16. Further requests the Administrator, in consultation with the JIU and the Executing Agencies, to review the question of the possible inclusion of support costs in project budgets and submit a report to the Working Group, at its January 1979 session,
17. Invites the Advisory Committee on Administrative and Budgetary Questions to submit its comments and observations on the recommendations prepared by the Administrator in pursuance of paragraphs 15 and 16 above,
18. Decides to meet again in New York from _____ to _____ January, 1979.