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

Text of the decision prepared by the Working Group
at its informal meetings on 7-8 June 1978

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 583rd 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 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 and further that this formula does not fully respond to all the variables in the situation,

6. Noting that over-all programme and project support costs have reached significantly large levels and the consequent need to make every effort to reduce such costs on the basis of the principles of sound management and in the interests of better programme delivery,

7. Noting with appreciation the efforts made by UNDP and the Executing Agencies towards support cost reductions and expressing the hope that these efforts will be continued and intensified,

8. Urging that any new formula for reimbursement should provide an incentive to review and reduce over-all support costs,

9. Noting that any UNDP funds released by a reduction of support costs
10. Considers that any new reimbursement formula should be easy to understand, practical to operate and durable,

11. Regards the JIU proposal as one basis for the establishment of a new formula, while recognizing the necessity for modifications with respect to the variables proposed,

12. Considers that any new formula for reimbursement of programme and project support costs should be based as closely as possible on data on the costs incurred and should, to the extent feasible, take account, of:

(a) Economies of scale, i.e., the scope for 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, for example, 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: for example, principally, in cases of Government execution, the associated Agency would be paid support costs 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 way could be found, of variations in cost levels at headquarters of Agencies, of the provision of a measure of stabilization in the year-to-year variations in support cost reimbursements, and of the possible benefits to be derived from adopting a project rather than a programme basis for the calculation of support costs,

14. Requests the Administrator, on the basis of paragraphs 12 and 13 above, and in consultation with the Executing Agencies and, if possible, with the Administrative Committee on Co-ordination to recommend to the Working Group a modified formula to enable Governments members of the Working Group to formulate an intergovernmental recommendation to the Governing Council,
15. **Further requests** the Administrator, in consultation with the Executing Agencies and, if possible, with the ACC to review the question of the possible inclusion of support costs in project budgets and submit a report to the Working Group,

16. **Invites** the Advisory Committee on Administrative and Budgetary Questions and the Joint Inspection Unit to submit their comments and observations on the recommendations prepared by the Administrator in pursuance of paragraphs 14 and 15 above,

17. **Decides** to meet again in New York from .. to .. January 1979.