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GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fourth Session
June 1979

AGENCY SUPPORT COSTS

Draft decision of the Working Group

(Note by the Chairman)

As amended by the Working Group 5 June 1979

The Intergovernmental Working Group on Support Costs

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), and the additional information received from the Agencies (DP/WGOC/28, Corr.1, and Add. 1, 2 and 3),

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 the 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 over-all programme and project support costs have reached significantly large levels, that any new reimbursement formula should provide an incentive to review and reduce over-all 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 IPF's,

Believing that any reduction in UNDP reimbursement of support costs designed to make the System 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,

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,

Considering, therefore, that the Working Group does not have adequate information on the costs of administering technical co-operation activities in the United Nations system to enable it to make a recommendation at its June 1979 session of a long-term solution acceptable to all parties concerned,

Convinced that efforts should be continued to seek ways and means of instituting adequate arrangements and systems in the organizations designed to generate cost data which would give a clear picture of the support costs arising in respect of technical co-operation activities, with a view to the over-all reductions of these costs,

Considers that a limited study be commissioned, to be undertaken by an independent consultant, to be appointed by the Administrator, to provide the Working Group with the information and other elements it requires to enable it to recommend long-term arrangements for the reimbursement of Agency support costs associated with the administration of technical co-operation activities of the United Nations system, with a view to bringing about an over-all true reduction in such costs including the part met by Agency regular budgets.

The considerations which should be borne in mind in undertaking the study and the terms of reference for it are contained in the Annex to this decision.

The study should be submitted to the Working Group, through the Administrator of the UNDP, by 1 March 1980 in order to permit the members of the Working Group to study its contents prior to the 27th session of the Governing Council in June 1980.

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Expresses the hope that a recommendation for long-term arrangements and for any interim period after 1981 if necessary for the reimbursement of support costs with respect to technical co-operation activities will be formulated in June 1980 in the light of the findings and conclusions of the study;

Agrees on the following elements to be included in the new arrangements:

(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) Nature and component mix of projects

For projects consisting of 75 per cent or more of the equipment and/or subcontract components, the reimbursement rate would be 7 per cent of total project costs. This provision would be superseded by (i) above in the case of Agencies with annual programme delivery levels below \$15 million;

(iii) Special arrangements with IBRD and UNDP/OPE

The present special arrangements 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;

(iv) 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 (ii) above;

Considers that the costs related to support services warrants greater intergovernmental scrutiny and to this end the possibility of the Agencies preparing a separate budget to cover such costs, supplementary to the costs of their regular activities should be explored further;

Considers further that, in the meantime, the existing arrangements which have been authorized until the end of 1979 should be continued until the end of 1981;

Decides in view of the foregoing that the Governing Council should be requested to authorize the continuation of the Working Group until the end of the 27th session of the Governing Council in June 1980.

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Recommends that the Governing Council adopt the following decision:

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The Governing Council,

Having considered the report of the Intergovernmental Working Group on Support Costs (),

Taking account of the comments and observations made during the discussion of this item

Takes note of the decision adopted by the Working Group at its current (June 1979) session,

Approves the commissioning of the limited study by an independent consultant as recommended by the Working Group as well as its proposed terms of reference and timetable, as contained in the Annex hereto;

Decides that, in the meantime, the existing arrangements for reimbursement of support costs which have been authorized until the end of 1979 should be continued until the end of 1981,

Decides to continue the Working Group until the close of the twenty-seventh session of the Council.

ANNEX

TERMS OF REFERENCE

A limited study will be undertaken to compile and assess information on the cost of administering technical co-operation activities in the United Nations system. The objective of the study, which will be carried out in full co-operation with the Executing Agencies and the UNDP, will be to provide the Working Group with the elements it requires to enable it to recommend long-term arrangements for the reimbursement of support costs associated with the administration of technical co-operation activities in the United Nations system with a view to bringing about an over-all reduction in such costs.

The study should take into consideration the relationship with the assessed budgets and the programmes of work of the Executing Agencies and should examine the information obtained in the light of the following requirements for a long-term solution:

- Any new system should include a clear and detailed enumeration of the expenditures involved in the term "support costs" and should reflect clearly the identifiable additional costs of administrative and technical support provided to technical co-operation programmes;
- It should be so designed as to provide an incentive to all parties concerned to minimize the incidence of support cost;
- It should include adequate flexibility to take account of the special situation of the different Agencies;
- It should reflect the fact that support for technical co-operation activities had increasingly become a function of the Agencies, as well as the principle of full partnership between UNDP and the Agencies in accordance with the Consensus of 1970;
- It should be easy to understand, simple to operate and be applicable to all forms of technical co-operation activities in the United Nations system, including all types of cost sharing where necessary support costs of the Executing Agencies as well as UNDP have to be covered.

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The study should be based on a clear definition of the elements of costs to be included in support costs along the lines of the criteria for such definition as outlined by the Joint Inspection Unit in paragraphs 7-11 of its Note (DP/WGOC/1) and endorsed by the Working Group.

The study should also address the question of obtaining information which would facilitate the determination of the incidence of economies or diseconomies of scale affecting support costs in relation to the volume of technical co-operation activities undertaken and taking account of Secretariat infrastructure already existing under regular budgets.

Additionally, the study should look into the feasibility of the Executing Agencies advising the recipient Governments of the projected utilization of the support costs reimbursed corresponding to each project being executed.

Further, the study should consider the possibility of determining the aggregate costs of administering technical co-operation activities, irrespective of source of funds, and then applying a proportionate ratio by source of funds for calculating their reimbursement.

The study should also advise on 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.

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