AGENCY SUPPORT COSTS

A Note on Inter-Agency Support Costs
Submitted by the Delegation of Canada

1 - Background

1.1 The issue of inter-agency support costs has been discussed within the United Nations since the late 1940's. The working group on support costs established by the Twenty-fourth Session of the UNDP Governing Council is seeking to modify the current 14 percent formula used for calculating UNDP's share of agency support costs. The mandate of the working group is to establish a long term system for meeting support overhead costs which would be simple, flexible, clearly defined, and provide an incentive to all parties to minimize support costs. The working group has investigated a number of potential modifications to the current flat rate formula which would take into account economies of scale, component mix of projects, method of execution and a number of other variables.

1.2 Historically, discussion of the support cost issue, has been based on two basic principles. The application of both these principles has been substantially eroded over time. The first concerns the "partnership" relationship which exists between the UNDP and the specialized agencies. United Nations agencies benefit from participating in UNDP financed projects and are, therefore, expected to contribute to the costs associated with executing these projects. The second principle concerns UNDP payment of incremental costs associated with execution of UNDP financed projects. Support cost reimbursement by UNDP was originally established at a rate which was related to additional costs associated with an agency participating in a program.

2 - Current Situation

2.1 The working group has attempted to establish a new formula based on actual cost data associated with technical and non-technical support activities of the specialized agencies. In spite of cost measurement studies conducted by various agencies, cost data is unavailable and this approach has not proved successful.
2.2 The importance of UNDP support costs has increased substantially over the years as the volume of the UNDP program has increased. In 1977, total agency support costs were $82.6 million of which UNDP contributed 55 percent. Budget mechanisms within the agencies for approving and monitoring the utilization of UNDP funds, however, have not kept abreast of their importance. In most instances, governing bodies do not scrutinize positions financed from extra budgetary sources in the same way as those financed from regular budget sources.

2.3 UNDP's proportional share of technical assistance has declined substantially in recent years with the growth of funds-in-trust, multi bi financing, etc. and technical assistance programs financed by the regular budgets of the agencies. Payment of support costs associated with this new mix of project financing has never been dealt with at a coordinated inter-governmental level.

2.4 Economies of scale are becoming increasingly evident in comparing costs associated with the larger executing agencies with those of the smaller. Under the current formula, UNDP derives no benefit from economies of scale; these accruing completely to the regular budget and this distortion will increase as the program expands. The increased use of government execution, changes in the component mix of projects and shifts in the different agency's share of the UNDP program are also important aspects of this problem.

3. A New Approach

3.1 Given the longstanding difficulty in achieving a solution to the problem of support cost, a new methodology appears merited. The following formula is, therefore, a new approach to this issue. The formula deals in aggregates and thereby avoids the issue of cost measurement. It is based on the following factors:

3.1.1 total agency support costs associated with all technical assistance programs,
3.1.2 volume of all technical assistance programs administered by the agency by source of funds i.e. (a) UNDP, (b) Assessed Budgets, (c) other (multi bi, funds in trust, etc.),
3.1.3 ratio, decided by the intergovernmental working group, of the share of support costs which should be borne between UNDP funds and the regular budget.

3.2 The following formula is, therefore, proposed:

\[ P = C \times R(T/D) \]

/...
P equals UNDP support costs paid to the agency.
C equals total support costs of the technical assistance program of the agency.
R equals the ratio or "partnership share" of overheads associated with executing UNDP financed projects (paid either by extra budgetary or regular budget funds).
T equals total volume of UNDP program executed by the agency.
D equals total technical assistance program administered by the agency.

4. Advantages and Disadvantages

The above formula would have the following benefits:

4.1 UNDP would be "an equal partner" with all agencies paying a consistent share of support costs associated with each agency's total technical assistance program,
4.2 Economies of scale would benefit equally UNDP and the agency's regular budget,
4.3 The current budgetary practice of separating extra budgetary and regular income sources would be removed as no separation would exist between UNDP financed posts and posts financed by the regular budget,
4.4 The formula is simple, manageable, based on real costs, and could result in a reduction of overall costs to UNDP,
4.5 Fund-in-trust, regular budget funds, etc. would bear their relative share of support costs.
4.6 The formula could strengthen the central funding concept because of the proportionate reimbursement of support costs,
4.7 As with the current formula, the formula is neutral to the future in the sense that the role of UNDP in financing technical assistance can change and the formula automatically adjusts.

The formulation may have several disadvantages.

4.8 The agencies must be in a position to identify costs associated with administering their technical assistance program. A standard definition of terms to be included in support costs would have to be established for all agencies. This, however, can be viewed as an advantage in that it would rationalize the United Nations accounting system and provide system-wide comparability.
4.9 The formula could result in a transfer of costs from voluntary to assessed budget contributions in some agencies and the reverse in others. This would not have to be the case if the "ratio" is set high enough or a variable ratio for programs of different sizes, was established.

4.10 The formula does not take into account the component mix of projects or the method of execution.

4.11 Forecasting of UNDP's support costs would have to take into account new variables.

5. The formula was applied to data available on one agency. This data is not, however, reliable and the following is simply for illustration. A ratio of 80% was applied.

5.1 United Nations 1978

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total Technical Ass't Program</td>
<td>$78.5 million</td>
</tr>
<tr>
<td>UNDP Technical Ass't Program</td>
<td>55.5 million (70%)</td>
</tr>
<tr>
<td>Total Support Costs</td>
<td>20.1 million</td>
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</tbody>
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\[ P = \frac{20.1 \text{ million} \times 0.8}{\frac{55.5}{78.5}} \]

\[ P = \frac{\$11.4 \text{ million}}{} \]

Actual Overheads Paid.........................$11.4 million