UNITED NATIONS DEVELOPMENT PROGRAMME

GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fourth Session
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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 sub-
stantially eroded over time. The first concerns the "partnership" relation-
ship 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.

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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 mon-- itoring 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 dif- ferent 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 equals C x 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 forumla 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.

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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 <u>United Nations 1978</u>

Total Technical Ass't Program	$78.5 million
UNDP Technical Ass't Program	- 55.5 million (70%)
Total Support Costs	20.1 million

P equals $20.1 million x 0.8 $\dfrac{(\$55.5)}{(\$78.5)}$

P equals $11.4 million

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