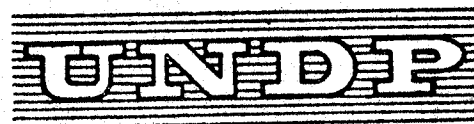


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GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON OVERHEAD COSTS
First Meeting
January 1978

AGENCY OVERHEAD COSTS

Views of the International Telecommunication Union

Note by the Administrator

At the request of the President of the Governing Council, the Administrator transmits herewith to the intergovernmental Working Group on Overhead Costs the text of a letter dated 21 December 1977 from the Secretary-General of the International Telecommunication Union (ITU), containing views on the subject of Overhead Costs.

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Communication from the Secretary-General of the ITU to
the Administrator of UNDP dated 21 December 1977

The definition of overhead costs has retained over the past years the attention of many committees and working groups. Yet no clearcut solution to this long lasting problem has been proposed as the answer depends very much on the institutional activities of each organization.

In the views of ITU, the overhead costs to be paid to ITU as the Executing Agency for the implementation of the UNDP technical assistance activities should cover the basic infrastructure needed to manage and implement the programmes assigned to ITU. The ITU Technical Cooperation Department is a separate service which is responsible for the technical assistance activities of the Union. Its cost is kept in a special budget and the expenditures should, under normal circumstances, be offset by incomes from overhead cost reimbursements.

As you well know, the question of overhead reimbursement to ITU has become a very vexing problem which during the last few years had to be submitted to the UNDP Governing Council. The latter took exceptional measures on an ad hoc basis and authorized you to reimburse ITU additional amounts of overhead costs.

In the case of ITU, its constitutional activities are not geared to technical assistance programmes per se and it was only in 1960 that its Administrative Council authorized the Secretary-General to set up a separate service - Technical Cooperation Department - to cope with technical assistance programmes financed from extra budgetary sources (EPTA or SF).

The ITU convention specifically stipulated in 1959 that any additional cost to ITU arising from its participation in the UNDP programme would have to be reimbursed in its totality. No funds were earmarked at that time to a regular programme of technical co-operation and therefore the activities of the Technical Cooperation Department were limited to those financed by UNDP. The ITU Plenipotentiary Conferences, i.e. of member Governments, in 1965 and 1973 did not change this stipulation. This policy decision was taken by the Governments in the interest of total co-ordination within the UNDP programme.

Until 1972, due to its relatively small programme, ITU could obtain additional overheads through the flexibility rule. However, the currency fluctuations which have had their impact as from 1973 have eroded the ITU nominal income from overheads, which is in Swiss francs, by more than 46 per cent, as can be seen from the attached table 1. Furthermore, since 1973 the increased programme delivery by ITU made it not eligible for the application of the flexibility rule.

At the same time, ITU does provide a significant proportion of support (about 2,127,000 Swiss francs) costs from its regular budget in the way of documents, linguistic services, reproduction facilities, specialized technical advice including the especially established Training Advisory Unit, etc.

It is therefore our primary preoccupation that a long-term system for meeting overhead costs of ITU, taking into account special circumstances under which ITU participates in UNDP, be adopted in the very near future.

Although the majority of Executing Agencies have expressed a strong preference for the continuation of the current arrangements for the 14 per cent reimbursement rate, the specific problem of ITU would still remain to be solved. The ITU policy can only be changed by the next Plenipotentiary Conference which will not be before 1980.

It is by now well known that continuing currency fluctuation is particularly heavy in Geneva and that consequently the system of a flat rate reimbursement in US dollars of 14 per cent is not reasonable as far as ITU is concerned.

I think that it would be agreed that a minimum service is required to plan and execute a programme. The cost of that service will necessarily vary with locations. As an example, table 2 demonstrates clearly the considerable discrepancies which exist in the cost of professional staff at various Agencies' headquarters. This is certainly also true for the cost of general service category staff.

Furthermore, several Specialized Agencies have under their constitutional activities an important technical assistance programme which is funded from their regular budget. Therefore, these organizations have already an administrative and organizational structure to cope with the activities forming part of their work programme and in support of their regular technical assistance programme. Consequently, the overhead reimbursement which they receive from UNDP for their participation would be recognized to cover clearly identifiable additional administrative support to an on-going programme structure arising from their normal activities. In other words, there is some possibility of sharing overheads directly related to programme management with the regular programmes.

After having studied the various facets of the problem, ITU considers that the only way to introduce a certain stability into the compensation of its overheads - which at present are at a flat rate of 14 per cent - would be the compensation of cost for the "service" ITU provides. This arrangement should be based on the concept that UNDP would pay for an agreed level of infrastructure within ITU to enable ITU to deliver in a satisfactory way UNDP-financed programme. A provision for adjustment should be foreseen in case of major changes in the volume of ITU/UNDP activity. This approach is in fact already applied to those Agencies with whom the UNDP negotiates additional lump-sum overhead reimbursement under the flexibility rule adopted by the UNDP Governing Council. These Agencies, with one exception, are located in Switzerland and consequently face the same currency fluctuation problems as ITU.

You are aware that in the last year or so we have made a thorough review and substantive reduction (30 per cent) in the staff which was previously identified in support to technical assistance activity at headquarters.

I submit to you the above mentioned preliminary thoughts with a view to obtaining your reaction and for consideration by the Inter-governmental Group examining "overhead" policy. I shall certainly provide you with a more substantiated request should you agree that this approach is in the right direction.

I should like to underline that ITU is most anxious to find a better solution to the present system which, due to the currency fluctuation and other distorting factors, creates the feeling of unfairness and uncertainty of the future of our technical co-operation activities.

Table 1

FOR US \$1,000,000 of PROGRAMME DELIVERY =		US\$ INCOME CONVERTED INTO UN-AGENCIES HQ -CURRENCY		
		= \$130,000 OVERHEAD	= \$140,000 OVERHEAD	INCOME
		INCOME	INCOME	- Decrease
TOWN	13% in January 1971	14% in December 1977		+ Increase
Geneva	561 600 Fr.S.	303 800 Fr.S.		- 45.91%
Paris	695 500 Fr.F.	679 000 Fr.F.		- 2.37%
Vienna	3 404 800 Shl.	2 261 000 Shl.		- 33.59%
Montreal	130 000 C\$	154 000 C\$		+ 18.46%
New York	130 000 \$	140 000 \$		+ 7.69%
Rome	80 060 000 Lit.	123 200 000 Lit.		+ 53.88%

Table 2

COST OF SERVICES IN THE VARIOUS
COUNTRIES WITH UN-AGENCIES HQ
OF P.4/5

Duty Station (Post adjustment)	GENEVA (16+2/5)	PARIS (11)	VIENNA (11)	MONTREAL (2)	NEW YORK (6)	ROME (2)
P.4/5	23 964	23 964	23 964	23 964	23 964	23 964
Post adjustment	17 154	11 506	12 552	2 092	6 276	2 092
TOTAL	41 118	35 470	36 516	26 056	30 240	26 056
Less than Geneva \$		- 5 648	- 4 602	- 15 062	- 10 878	- 15 062
Less than Geneva %		- 13.7%	-11.2%	-36.6%	-26.5%	-36.6%