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## AGENCY OVERHEAD COSTS

### Note by the Administrator

#### Addendum

Attached is the information submitted by the International Labour Organisation (ILO), the World Bank and the International Atomic Energy Agency (IAEA), in response to the request of the intergovernmental Working Group on Overhead Costs, contained in DP/WGOC/L.1, paragraph 29, operative paragraph 3.

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Information submitted by the International Labour Organisation (ILO)  
in response to the request of the intergovernmental Working Group on  
Overhead Costs, contained in DP/WGOC/L.1, para.29, operative para. 3

- a) 1. Support to UNDP, trust fund and regular budget technical co-operation projects is in general treated in the same way.
2. The organizational arrangements for such work were recently modified to provide for decentralization to the ILO external offices by 1 January 1979 of the responsibility for projects in the fields of employment promotion, vocational training, management development and co-operatives, which account for the bulk of the ILO technical co-operation. Apart from certain personnel, financial and other administrative functions, the directors of the offices will be responsible for all aspects of the development, management and follow-up of these projects in the countries covered by their offices. They are the responsible chiefs of Chief Technical Advisers (CTAs) to whom they delegate the maximum amount of authority for the formulation and execution of projects. Technical departments at headquarters, however, retain an important supporting role in the development of pilot projects, model project documents and training techniques; the provision of advice and assistance in the formulation and execution of projects; and in carrying out ad hoc inspections and evaluations. For projects in other fields, the technical departments concerned will retain responsibility for the time being, but will involve the field to the maximum extent possible. A policy of progressive delegation of administrative functions to the external offices and CTAs is being pursued. Certain of these functions, such as central accounting work, will, however, inevitably have to continue to be carried out at headquarters. (Fuller details of these arrangements may be found in ILO Circulars 2/98 of 13 February 1978 and 2/68 of 16 October 1975).
3. Technical and administrative service and support to projects carried out at headquarters is normally integrated into the over-all programmes of work of the corresponding departments. In addition, there is a small unit for the co-ordination of operational activities at headquarters which is responsible for relations with funding Agencies and other donors concerning the provision of resources and the formulation of policies and procedures, the maintenance of manuals and the preparation of reports and documentation for the ILO and outside bodies. Other functions formerly performed by this unit, including in particular the monitoring of progress in project implementation, are being phased out as a result of the increased decentralization to the field. There are also separate units, within the departments concerned, for technical co-operation personnel services and for the procurement of technical co-operation equipment.
4. Executing Agency costs of 14 per cent are normally reimbursed in respect of all technical co-operation projects financed from extra-budgetary sources, except for UNFPA projects, for which infrastructure support in the ILO is financed by the Fund. (Fuller details of the practice in this respect are contained in ILO Circular 5/30 of 12 October 1976). To the extent that support expenditures are not covered by outside funds, the costs are met by the regular budget (see under question (e) below.

- (b) 5. Information on action taken up to February 1977 is included in paragraph 4 to 11 of the material supplied by the ILO in document DP/WGOC/9. Progress in reducing costs along the lines indicated continues to be made, and a significant contribution in this respect is expected as a result of the decentralization operations described under question (a) above. In the light of the economies which the Director-General proposed to achieve in this way, the Governing Body in March 1977 eliminated from the 1978-1979 programme and budget proposals the direct subsidy of \$1,200,000 from the regular budget to extrabudgetary technical co-operation service and support, to which reference is made in paragraph 8 of document DP/WGOC/9. The economies being achieved will also make possible the elimination of expenditure of \$1,082,000 under the regular budget for the co-ordination unit mentioned under question (a) above, which, in 1978-1979 will be financed entirely from extrabudgetary resources.
- c) 6. The measures taken and some of the resulting economies are described under questions (a) and (b) above. Further economies made possible by the decentralization will also undoubtedly be achieved, but their extent cannot easily be estimated, given the integration of service and support work for technical co-operation and other activities and in view of the discontinuation (because of the high cost involved in its operation) of the Cost Measurement System which provided a means of attributing staff and other expenditures to the regular budget and other programmes concerned.
7. It is as yet too early to determine what impact these measures will have on the quality of support functions. The matter is, however, under constant review and it is hoped that a scheme for the systematic evaluation of projects which the ILO envisages setting up will, inter alia, provide a means of judging the effect of the measures.
8. The Office is also concerned that the quality of internal control, including financial control, should not be impaired as a result of the economy measures. The question of how external offices may best be equipped to assume increased responsibility for control is currently under study.
9. It should also be borne in mind that the imposition of additional work on project staff cannot be lead to increased direct project costs.
- d) 10. Information on expected receipts from extrabudgetary sources has been included in programme and budget documents in various forms, since the institution of programme budgeting in 1967. A history of the consideration of the over-all problem of the impact of overhead costs on the budget since 1974 is given in paragraphs 1 to 3 of the information supplied by the ILO in document DP/WGOC/9. In the 1978-1979 programme and budget, an improved presentation of the data has been adopted. A budget table for each programme shows the resources expected to be available for the service and support of extrabudgetary operational activities. These estimates are also grouped at the major programme level in the summary table at the beginning of each programme. The overhead payments are now fully subject to review by the Governing Body and the Conference during the budget-making process,

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and decisions on the level of regular budget resources for each programme are taken in the light of the information provided on expected extrabudgetary resources. Since there are never enough regular budget funds for all the programmes which it would be desirable to include in the budget, there is a strong incentive to reduce service and support costs to the minimum.

e) 11. Lump-sum cash subsidies towards overhead costs were included in the programme and budget in bienna up to 1976-1977, when expenditure under this head amounted to \$2,784,000. An amount of \$1,200,000 was originally suggested by the Director-General for the 1978-1979 programme and budget but, as mentioned under question (b) above, was eliminated by the Governing Body in the light of the economies proposed.

12. Specific provision for technical co-operation service and support under technical programmes has also been made in recent budgets. Some \$3,832,000 was included in this way in the 1978-1979 programme and budget, including \$1,082,000 for the Co-ordination of Operational Activities programme, which credit, as indicated under question (b) above, will not be utilized. The 1978-1979 programme and budget also includes, for the headquarters service and support programmes and the field programmes, general credits covering, without distinction, work relating to both technical co-operation and other activities. Given the very close integration in the ILO of regular budget and extrabudgetary activities in both the technical and non-technical service and support areas, together with the difficulty in many instances of distinguishing between technical substantive and technical support work, no adequately accurate estimate can be made of the proportion of these credits which is required for the service and support of extrabudgetary technical co-operation. It is, however, certain that, even after allowing for the effects of the economy measures referred to above, the regular budget expenditure incurred by the ILO for service and support to extrabudgetary projects at least matches the amount reimbursed to it as Executing Agency. As long as living costs in Geneva remain at a very high level in relation to those in the field, and as long as the very unfavourable US dollar-Swiss franc exchange rate continues, there is no hope that even the severest rationalization operations will materially change this situation.

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Information submitted by the World Bank in response to the  
request of the intergovernmental Working Group on Overhead  
Costs, contained in DP/WGOC/L.1, para. 29, operative para.3

1. The Technical Assistance Division in the World Bank's International Relations Department co-ordinates work on all UNDP-financed projects for which the Bank is Executing Agency. This Division is also responsible for synthesizing Bank staff comments on UNDP projects to be executed by other Agencies. Special sections in the Controller's Department handle disbursements and accounting of UNDP projects and a special office in the Personnel Department recruits experts and consultants. Technical supervision of UNDP projects is provided by staff specialists assigned to specific projects. Legal questions are handled by the Legal Department staff responsible for matters related to the host country. Non-UNDP technical assistance projects are generally co-ordinated by the Bank's Regional Offices (programme departments at headquarters), although monitoring of all technical assistance supported by the Bank is the responsibility of the Technical Assistance Division.
2. Support costs are kept low by a deliberate policy of coinciding, to the greatest extent feasible, the field supervision of UNDP projects with operational visits to Bank projects. This has the further advantage of helping to assure better co-ordination between technical assistance projects and investment projects.
3. In some of its member countries, the Bank has established field offices to facilitate and supervise Bank operations or to provide advisory assistance to the Government. The Bank has not decentralized its organization, because of the much higher costs involved in maintaining a large technical staff overseas.
4. Receipts of overhead payments from UNDP are identified for internal accounting purposes but become part of the Bank's total income. Inter-governmental review is effected through annual financial reports (audited by independent auditors) submitted to the Executive Directors of the Bank who are elected or appointed by the Bank's member countries. Costs not covered by UNDP overhead payments are met out of other income of the Bank.

Information submitted by the International Atomic Energy Agency (IAEA)  
in response to the request of the intergovernmental Working Group on  
Overhead Costs, contained in DP/WGOC/L.1, para. 29, operative para. 3

- (a) 1. No distinction is made in the handling of UNDP-financed technical assistance projects, which accounted for 22.5 per cent of the dollar amount of all of IAEA technical assistance work in 1977, and that of projects financed from other resources. All of the technical assistance work is processed by Technical Assistance staff in the Department of Technical Assistance and Publications. IAEA calls upon any of the scientific and technical staffs located in various other departments throughout the IAEA to participate when needed, depending on the expertise that is required. There is only one staff member (GS category) in the Department of Technical Assistance and Publications who deals exclusively with UNDP work.
- (b) 2. The measures which IAEA was forced to take to reduce support costs include, inter alia, not participating in seven interagency meetings to which IAEA was invited since the first of this year, and in not filling positions that became vacant in the Department of Technical Assistance and Publications.
- (c) 3. The Agency does not have a field organization to which the responsibility and authority for technical assistance work could be decentralized. In view of the size of the IAEA technical assistance programmes, the costs involved in establishing a field organization are not justifiable. Wherever possible, IAEA utilizes the services of the UNDP Resident Representatives. It is planned to explore the feasibility of leaving to them such matters as the approval of annual and home leave, the purchasing of tickets for official travel, and the determining of entitlements to a wide range of allowances and grants.
- (d) 4. (i) Overhead payments received from UNDP and from other extrabudgetary sources are treated as miscellaneous income which, together with the amounts appropriated by the General Conference, are used to finance IAEA activities. Any miscellaneous income received as overhead is subject to the appropriation limitation imposed by the General Conference.
- (ii) There is no intergovernmental review of the utilization of overhead payments received because, as explained above, they are an integral part of the budget.
- (e) 5. IAEA operates under a programme budget. The main cost elements for individual programmes consist of staff costs, travel and the cost of meetings. As stated above, overhead payments received are treated as miscellaneous income and are not identified by programme. Accordingly, any shortfall of overhead payments has to be met from the appropriations made by the General Conference.

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