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AGENCY OVERHEAD COSTS

Note by the Administrator

Addendum

Attached is the information submitted by the Food and Agriculture Organization of the United Nations (FAO), the Inter-Governmental Maritime Consultative Organization (IMCO), the Inter-American Development Bank (IADB), World Meteorological Organization (WMO), and the United Nations Industrial Development Organization (UNIDO), 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 Food and Agriculture Organization of the United Nations (FAO) in response to the request of the intergovernmental Working Group on Overhead Costs, contained in DP/WGOC/L.1, para.29, operative para.3

DP/WGOC/L.1, paragraph 29, operative paragraph 3(a) and (c)

1. FAO's support arrangements for the UNDP-financed programme are the same as for other extra-budgetary projects and programmes.
2. There are four categories of Headquarters units involved, viz. those responsible for (i) the planning phase and over-all co-ordination and monitoring, (ii) management and operation, (iii) technical inputs, and (iv) central administrative, financial and budgetary support.
3. The Field Programme Development Division in the Development Department is the unit directly responsible for ensuring that FAO's total field programme renders satisfactory service to member countries, recipient and donor, in support of the development efforts. Its specific responsibilities include the co-ordination of FAO's participation in country and intercountry programming, the filtering and appraisal of project proposals, project pre-formulation, and a monitoring of the progress of the total field programme in all stages and sectors.
4. Operational and management support is concentrated in specific Operations Units, to which very wide functions and responsibilities have been delegated from the central services in the area of recruitment and personnel administration, contracts administration, fellowships placement and supervision, etc. (In 1974, the then existing seven Operations Units were concentrated into three, one for each of the agriculture, forestry and fisheries sectors.)
5. The Technical Divisions in the sectors of agriculture, forestry and fisheries continue to be responsible for the technical content and quality of the projects and for the maintenance of the essential links between the Regular and the field programme. They participate in the planning phase, through advice on input provision and the technical aspects of operations, and through examination of reports and recommendations.
6. Central units continue to provide various services and over-all policy guidance in the area of personnel, contracting, procurement, budget administration, etc.
7. Delegation of functions and responsibilities away from Headquarters to the field level - to the regional and country offices as well as to individual projects - has been consistently pursued. The establishment of a corps of FAO Representatives in developing member countries is the most important of the steps so far. In programme development, the FAO Representatives will advise Governments on the Programming of technical assistance and investment projects and on sources of project funding. They will organize technical expertise in the formulation of programmes and projects. In project planning and implementation, they will assist Governments

in the preparation and negotiation of project documents, ensure co-ordination of FAO's programme in the country and assist the FAO field staff to perform their duties effectively, monitor the progress of FAO's programme in the country in general, submitting reports and ensuring action on problems as required

8. The Regional Offices are concerned with programming of regional projects and provide technical support generally for projects in the countries of the region.

9. By a series of delegations of authority over time, the responsibilities of Project Managers have been steadily increased in the fields of general administration and budget matters, personnel administration, fellowships, procurement of equipment, and control of other project inputs. For example, the limit of the Project Manager's authority for procurement has been gradually raised. The most recent step was to increase the ceiling from \$5,000 to \$10,000 per purchase order. For certain specified items, there is no ceiling. A number of measures have allowed the Project Managers to obtain and pay for various kinds of staff services at short notice and to make certain compensatory payments on their own authority. A further delegation of authority for local hiring of staff is being prepared.

DP/WGOC/L.1, paragraph 29, operative paragraph 3(b)

10. As regards FAO's measures to reduce support costs, the major reorganization of FAO's structures resulting in the arrangements described in paragraphs 1-5 above achieved considerable savings. Since then, further measures have been taken to increase efficiency and to reduce support costs. An indication of this is that whereas in 1970 the average amount of project delivery per project officer in FAO's main operating division was \$1 million per annum, in 1974 it was over \$1.5 million, and in 1976 nearly \$2.5 million.

11. As recorded by its previous cost measurement system and published in its official documentation, FAO has achieved the lowest over-all support costs among the major participating Agencies. UNDP's financial difficulties inevitably had the effect of bringing about an increase in support costs, without corresponding benefit to the quality of the programme with the maintenance of which FAO is much concerned. This increase in the ratio of support costs was not only due to the arithmetical consequence of measuring support costs as a percentage of a "delivery" base suddenly reduced by a very large amount: it is also due to the cost of meeting the greatly increased demands from UNDP for financial and administrative actions during the crisis on individual projects, experts, equipment, etc., and both then and subsequently for considerably increased provision of financial and administrative information to UNDP headquarters.

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DP/WGOC/L.1, paragraph 29, operative paragraph 3 (d) and (e)

12. Reimbursement of overhead costs, whether from UNDP or other extra-budgetary programmes, is used to provide partial finance of expenses, consisting mainly of posts, incurred in providing over-all support to field programmes. The distribution within FAO is decided in accordance with changing over-all requirements.

13. Full details of the situation concerning policies, programmes projects, financial and other implications, and future trends therein are given in the biennial Programme of Work and Budget - in the Director-General's Introduction, the Explanatory Chapter, the Programme Narratives, Organizational Annexes, and Tables.

14. The introductory and explanatory information covers FAO's share of IPFs, pledges to UNDP, FAO's share of delivery, actual cost of experts, receipts from overhead reimbursements, and the subsidy provided from the regular budget. The Programme Budget Narratives include information and figures on the field projects related to each programme, including a breakdown by all sources of extra-budgetary finance, including UNDP. Similar information is provided by regions in the Regional Annex to the Programme Budget.

15. The Organizational Annex to the Programme of Work and Budget identifies each post funded from Agency Overhead Costs under UNDP and Trust Funds, by organizational unit/service and grade, and specifically notes any biennial changes therein.

16. In addition to this comprehensive and massive information in the Programme of Work and Budget, which is available to all Member Governments (and to the public), various detailed documents are submitted to the Programme and Finance Committees of the Council, which report to the FAO Council thereon. In particular, there is a regular detailed report on the subsidies proved by the Regular Programme Budget to support of field programmes. After review by the Programme and Finance Committees, the results are considered by the Council and, as appropriate, by the Conference. The results and the views of the Director-General and Governing Bodies thereon are to be regularly found in the Programme of Work and Budget and in Council and Conference Reports.

17. It was thus only after careful study and debate on the comprehensive and detailed information described above, as well as on principles and qualitative considerations based on the actual experience of projects, of both donors and recipient countries, that FAO's Governing Bodies decided on their support of the current arrangements for reimbursement. (See also FAO's comments on DP/WGOC/1.)

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Information submitted by the Inter-Governmental Maritime Consultative Organization (IMCO) in response to the request of the intergovernmental Working Group on Overhead Costs, contained in DP/WGOC/L.1, para. 29, operative para.3

Para.3(a) - Organizational arrangements

1. Support to technical co-operation projects of IMCO is provided by the Technical Co-operation Division. The Technical Co-operation Division deals exclusively with technical assistance projects. The Division has its own budget in respect of Personnel, Travel and other operating costs. Accommodation and office services are, however, provided by the IMCO Regular Budget without cost. The Technical Co-operation Division receives substantive support from the Technical and Legal Divisions of IMCO, also without cost.
2. The above arrangements apply to both UNDP-financed and other technical co-operation programmes and projects. It should be noted that IMCO has no Regular Programme of Technical Assistance.

Para.3(b) - Measures taken to reduce support costs

3. The complement of staff in the Technical Co-operation Division is the minimum necessary to provide for the effective administration of the programmes. The professional staff was reduced by one by internal reorganization in February 1977. As in all the other Divisions of the Organization, operations are carried out with a continual eye on economy and the budget proposals are closely scrutinized and approved by the appropriate Governing Body.

Para.3(c) - Decentralization

4. IMCO has no country or regional organization except for regional advisers and other project personnel, and virtually all major programme support functions are carried out at Headquarters. Establishing regional or country offices would involve heavy additional expenditure.

Para.3(d) - Budgetary treatment of overhead payments

5. As stated under 3(a) above, the expenses of the Technical Co-operation Division are the subject of a separate Budget, and income and expenditure are dealt with in a separate account. Income from UNDP and from other sources is credited to the account and expenditure of the Technical Co-operation Division is debited. As IMCO is in receipt of a "flexibility" overhead allowance from the UNDP as a small Organization, the net amount of expenditure after deducting receipts is charged to UNDP, subject to the upper limit of flexibility, and no balance is carried forward.
6. The utilization of overhead payments is subject to review and control by the Governing Body as part of the process of Budget approval.

Para.3(e) - Subsidy from Regular Budget

7. The IMCO Regular Budget meets the entire cost of accommodation, office supplies and services, and backstopping by Technical and other Headquarters Divisions. It also meets the cost of four officers and their secretarial assistance to provide headquarters backing for UNDP-financed officers in the Regions and related functions, in addition to providing a cash sum to cover any deficiency in the resources available from UNDP and elsewhere to meet approved budgeted costs.

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Information submitted by the Inter-American Development Bank (IADB)
in response to the request of the intergovernmental Working Group on
Overhead Costs contained in DP/WGOC/L.1, para. 29, operative para.3.

Para.3(a)

1. The IADB's technical co-operation programme, which reached \$46 million last year, is managed by two departments. The UNDP programme, which amounts to less than \$1 million yearly, is managed by one of those departments.

Para.3(b) and (c)

2. No special measures have been taken by the IADB affecting UNDP/IADB projects.

Para.3(d) and (e)

3. UNDP overhead is added to the IADB general budget and is utilized for project management.

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

Organizational arrangements

1. The Technical Co-operation Department (TCO) of WMO is responsible for all aspects of the Organization's Technical Co-operation Programme, with the exception of personnel-servicing and financial-accounting which are performed by designated staff in the Administration, Conferences and Publications Department (ACP), administration of fellowships which is carried out by designated staff in the Education and Training Department (ETR) and technical support for hydrological projects provided by one officer in the Hydrology and Water Resources Department (HWR). All of the staff of TCO and the personnel of ACP, ETR and HWR specifically designated to work on technical co-operation activities supported by UNDP and trust-fund (TF) arrangements are financed from the Technical Co-operation Fund which receives revenues from UNDP and TF overheads.
2. Personnel responsible for the management of the Voluntary Assistance Programme (VAP) which is also administered by the Director of TCO, are financed by the regular budget of WMO and, to a small extent, from voluntary contributions to VAP.
3. Projects of a highly specialized nature that are funded jointly by UNEP and WMO are managed by staff of WMO's technical departments supported under the regular budget.

Measures taken to reduce support costs

4. WMO has made a concerted effort to reduce support costs for administering the Technical Co-operation Programme to the minimum consistent with effective implementation of projects. Recognizing that almost all of the expenditures from the Technical Co-operation Fund are personnel costs, WMO reduced the number of staff actually assigned from 50 to 43 over the period 1972 to 1977, while the total UNDP delivery increased slightly from \$6.1 million to \$6.5 million. Other cost reductions were possible by limiting travel of secretariat staff officers.
5. Despite this reduction, however, expenditures from the Technical Co-operation Fund increased from \$796,000 in 1972 to \$1,554,000 in 1977, or 1.95 times the 1972 expenditure. It should be noted that during this same period the annual average US dollar/Swiss franc exchange rate decreased from 3.83 to 2.42, and the cost of living index in Geneva increased from 128.6 to 170.3 as reported by the "Service Cantonal de Statistique" which had the effect of reducing the US dollar purchasing power in Geneva from \$1.00 in 1972 to \$0.48 in 1977, or requiring 2.08 times the amount of 1977 dollars to purchase the same food, lodging and clothing as in 1972. The comparison of these two factors (2.08 cost increase in Geneva versus 1.95 actual expenditure) indicates that some savings was achieved even though of lesser percentage than the 50 to 43 reduction in personnel.

Decentralization of responsibility

6. Since WMO has no staff assigned at the regional or country level, the opportunity to delegate responsibility and authority below the Secretariat is very limited. Project Managers and senior experts are normally involved in recruitment of other field staff, placement of fellows and procurement of equipment, but other than the local purchase of equipment, it is seldom possible to delegate responsibility for these functions to them. Local procurement of equipment is accomplished whenever practical, but usually the equipment and instruments needed in the project are of a highly technical nature, manufactured only in the more developed countries, and only the procurement staff of WMO are familiar with all of the types of items available. It appears that decentralization on a large scale is not practical in a small Specialized Agency such as WMO.

Treatment of overheads and intergovernmental review of their use

7. As was discussed under "Organizational Arrangements" above, the overheads received from the delivery of UNDP and TF assistance are placed in a Technical Co-operation Fund and all support costs incurred by the Organization in implementing technical co-operation projects are charged against this fund. Prior to the beginning of each year, the probable delivery of programme under both UNDP and TF projects is determined. At the same time, the number of staff required and other expenditures to be incurred are estimated and on the basis of WMO's pro forma cost projection, taking into account grade of staff and estimates of exchange rate and inflation, the probable expenditure in the year is computed. Applying the established rates of overhead (14 per cent of delivery on UNDP and TF projects arranged through UNDP field offices, from 12 to 12.5 per cent of delivery on TF projects arranged directly by WMO, 12 per cent on associate expert projects, and 3.5 per cent on GCCC expenditures) the revenue to the Technical Co-operation Funds is estimated. The difference between the probable expenditure from the Fund and the probable revenue to the Fund is requested from UNDP under the overhead flexibility provision applicable to the smaller Agencies.

8. In view of the standard 14 per cent overhead rate applicable to UNDP delivery, WMO has established a policy of charging 14 per cent overhead on all TF projects, unless the Secretary-General personally agrees that a different percentage should be applied due to the nature of the assistance provided. When the project is arranged through the office of the UNDP Resident Representatives, the full 14 per cent overhead will be credited to the TC Fund. However, when TF technical co-operation projects are negotiated by Members directly with WMO, the first \$1,000 of overhead received and 10 per cent of the remaining overhead is deposited in a special pool account to cover expenses incurred on TF administration in general, but not related directly with any specific TF project. The remaining overhead received (approximately 12 to 12.5 per cent) is credited to the TC Fund and combined with overheads received from UNDP and other TF projects.

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9. All accounts are audited by the External Auditor and reported annually to WMO's Executive Committee which consists of 24 Government representatives designated by the World Meteorological Congress (the governing body of the Organization) to meet annually and co-ordinate the over-all programme of the Organization.

Regular Budget subsidies to overhead costs

10. The Fourth World Meteorological Congress, during its session in 1963, decided that WMO should "take over from the United Nations the responsibility for administering its technical assistance projects under United Nations technical co-operation programmes, subject to the proviso that all costs resulting therefrom would be borne by the respective programmes in which WMO participates". Subsequent Congresses of WMO have reviewed and reaffirmed this policy. In principle, therefore, it is clear that the regular budget of WMO is not to subsidize any overhead costs resulting from extra-budgetary programmes of technical assistance. In practice, however, WMO does incur indirectly very substantial additional costs in the form of the time and effort which all departments of the Secretariat (and particularly the technical departments) spend on technical co-operation programmes. It is, however, difficult to assess this support in financial terms.

Information submitted by the United Nations Industrial Development Organization (UNIDO) in response to the request of the intergovernmental Working Group on Overhead Costs, contained in DP/WGOC/L.1, para. 29, operative para. 3.

3(a) A statement from each Agency briefly describing the organizational and other arrangements in the Agency to provide support to (i) UNDP-financed programmes and projects and (ii) other technical co-operation programmes and projects.

1. UNIDO provides technical and administrative support to UNDP projects largely through the Industrial Operations Division (IOD), the implementation arm of UNIDO. The Division of Policy Co-ordination, through the Sections of Programme Development and Evaluation, Field Reports Monitoring, Economic Co-operation among Developing Countries, and Least Developed Countries, also provides technical support, primarily in co-ordinating UNIDO's input into country programmes and project formulation and evaluation. This functional approach was introduced in the new organizational structure from 1 January 1976, in accordance with the Lima Declaration and Plan of Action. The functions are divided in the same way for all technical assistance, irrespective of source of funds. Administrative support to projects financed from UNDP and other sources of funds is also provided by the Administrative Services Division.

3(b) A statement from each Agency on the measures taken in the Agency to reduce support costs

2. It is interesting to observe that UNIDO's new structure largely anticipated the recommendations of the Ad Hoc Committee on the Restructuring of the Economic and Social Sections of the United Nations System to remove from the Administrative Services Division expert recruitment and purchases and contracting of technical assistance equipment, integrating them into the Industrial Operations Division. The functional organization should lead to lower support costs as the lines of communication and decision have been simplified. UNIDO has participated in the Cost Measurement exercise under CCAQ auspices since 1972 and the support costs are still controlled in this way, which furthers cost awareness of those concerned. Nevertheless, it would be completely wrong to believe that support costs could be reduced to the rate of 14 per cent reimbursed by UNDP, since most of the projects executed by UNIDO are small-scale projects in highly specialized fields of industrialization and not stereotyped or large-scale.

3(c) A statement from each Agency on the measures taken to decentralize responsibility and authority to the regional country level and indicating the impact of those measures on support functions and costs

3. UNIDO has no regional organization. However, there is a system of Senior Industrial Field Advisers whose salaries are financed from the UNDP Administrative Budget and duty travel from the UNIDO Regular Budget. Their function needs no elaboration, since it is well known. Furthermore, there are Senior

Inter-regional Advisers financed from the Regular Programme of Technical Assistance attached to the Industrial Operations Division who act as a fire brigade in responding to urgent requests from Governments for assistance in project formulation and implementation. In addition, there are the Joint Industry Divisions in four regional commissions (ECLA, ESCAP, ECA, ECWA). For many years the regional advisers also financed from the Regular Programme of Technical Assistance have operated from the headquarters of the respective regional commissions and participated, in varying degrees, in field project formulation and implementation. Recently, the resources of the Regular Budget of UNIDO have been used to outpost staff to the regional commissions, to give more impetus to work at the regional level. As is well known, UNIDO has granted authority to the Resident Representatives to handle UNIDO matters at the country level, whenever necessary.

3(d) A statement from each Agency briefly describing (i) the budgetary treatment of overhead payments received from UNDP and from other extra-budgetary sources, and (ii) the arrangements for, and the extent of, inter-governmental review of the utilization of such overhead payments

4.(i) UNIDO puts all overhead earnings into a pool account. This account finances, primarily, established posts and common staff costs for back-stopping technical activities. Some other direct costs of technical assistance, such as travel, communications and computer services are also met from this pool account.

5.(ii) There is no intergovernmental review of the utilization of such overhead costs. However, information on extrabudgetary activities and estimated costs are contained in all programme budgets and medium-term plans, to allow policy-making organs to review UNIDO's budget and plans.

3(e) A statement from each Agency, where applicable, showing to what extent, how and where its regular budget provides for subsidies towards meeting attributed overhead costs

6. Estimates of support costs financed by the Regular Budget are obtained from the Cost Measurement System. The total support costs in 1977 were 26 per cent of project delivery, whereas contributions from extrabudgetary resources produced overheads of 14 per cent, or less than 14 per cent, thus the Regular Budget had to provide 12 per cent of the project costs, or approximately \$5.5 million.

7. Many of our Regular Budget posts in the Programme Development and Evaluation Section, Field Reports Monitoring Section, Economic Co-operation among Developing Countries Section of the Division of Policy Co-ordination, in the Industrial Operations Division and in Administrative Services Division provide full or part-time support for operational activities. However, these posts are not distinguished from other Regular Budget posts in our accounts. A few posts in the International Centre for Industrial Studies are also involved in activities relating to UNDP. The Regional and Country Studies Section assists in country programming of UNDP and the Industrial Information Section collects data of use for UNDP projects.