

# UNITED NATIONS DEVELOPMENT PROGRAMME



Distr.  
GENERAL

DP/WGOC/2  
30 November 1977

ORIGINAL: ENGLISH

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

## AGENCY OVERHEAD COSTS

### Views of the International Civil Aviation Organization

#### 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 3 November from the Secretary General of the International Civil Aviation Organization (ICAO), together with the attachment containing the views of ICAO on the subject of Agency Overhead Costs.

Communication from the Secretary General of ICAO  
to the Administrator of UNDP dated 3 November 1977

The purpose of this note is to put forward our views on this important subject. In view of the enormous amount of detail which has been provided at different times on this matter, and the discussions which have ranged over 10-15 years, we have deliberately kept our comments to the minimum, feeling that reviews of historical backgrounds are unnecessary on this occasion. Nevertheless, if you or the Working Group consider that we have not provided sufficient data, we will be only too happy to respond further, or indeed attend a meeting of the Working Group if this should be considered necessary or desirable.

International Civil Aviation Organization on Agency Overhead Costs

1. In common with other Agencies in the United Nations system, ICAO has been operating technical assistance programmes funded either by UNDP (or its predecessors) or Funds-in-Trust for many years. ICAO has never allocated funds from within its Regular Programme for technical assistance activities, except for the three years - 1968-1970 inclusive - during which period a total of \$100,000 per annum was specifically subscribed for additional fellowships. The Chicago Convention which governs the Regular Programme activities of ICAO, and thus effectively determines its work programme and the parameters of its triennial budget, does not include the provision of funds for technical assistance activities as a part of the assessed cost applicable to each Member State of ICAO.
2. Consequently, technical assistance activities conducted by ICAO have, from the earliest days, been treated as a separate responsibility, co-ordinated by a Bureau whose management and other costs have been financed by income derived from Agency Overhead Costs. It has long been, and still remains, the intention of the Assembly of States which governs the activities of ICAO that this situation shall continue; that is, that technical assistance activities shall be regarded as a separate and additional activity funded entirely from resources additional to the assessed costs applicable to Member States for the execution of ICAO's Regular Programme activities.
3. Whilst this practice has been adopted from the earliest days of providing technical assistance, the ratio of technical assistance activities to the regular work programme of ICAO was initially rather small. As a consequence, no great effort was made in those early days to precisely

/...

define the division of costs entirely applicable to technical assistance activities. As the programme developed however, and costs of managing and executing that programme increased both in size and in relation to the ICAO Regular Programme budget, a more complete separation of costs has been applied. For all practical purposes, it may be said that the management and administrative costs now associated with the total range of activities arising from technical assistance programmes are fully separated from the ICAO Regular Programme budget, and are covered by Agency Overhead Costs.

4. The Technical Assistance Bureau within ICAO, whilst naturally an integral part of the total ICAO field of operation, operates with a considerable degree of autonomy. The costs incurred by the Technical Assistance Bureau in the development of projects, all aspects of implementation, evaluation of results achieved, regular visits to countries, inspections of projects, etc., are therefore clearly definable; and costs involved incurred through staff salaries, travel expenses or the like, are a direct debit to the Agency Overhead account. Additionally, the Technical Assistance Bureau bears its proportion of other common service costs involved within ICAO such as the rental of office space, the cost of telephone calls applicable to technical assistance, operation of the telex system, use of Sections of the ICAO Finance Branch who are concerned with maintaining technical assistance accounts and paying salaries to field experts or other associated financial transactions. This allocation of common service facility costs to the technical assistance budget is achieved through the simple formula of estimating the work effort or costs involved in other Sections of the ICAO Secretariat specifically related to technical assistance activities, these costs then being debited to the Technical Assistance Bureau operating budget.

5. It should be pointed out, however, that this apportionment has not been carried to the ultimate extreme. For example, the Secretary General is naturally, in his capacity as Head of the Secretariat, involved in technical assistance work but no attempt is made to allocate a proportion of his Office costs to technical assistance. The same may be said in respect of the time allocated to technical assistance by the President of the ICAO Council; or indeed in respect of the use of the services of other substantive Bureaux of ICAO such as the Air Navigation, Legal or Air Transport Bureaux or the ICAO Language Branch. Such use, which is naturally indispensable to the best operation of technical assistance activities, is principally concerned with providing technical or professional opinions whenever required, to giving advice on legal documents, attending as Members of Equipment Purchase Contracts Boards, the translation of documents whenever necessary, and similar activities. Where, however, a significant cost is involved, such as a bulky document for translation or extensive printing, or travel on a technical assistance related assignment by a Regular Programme staff member, then those costs are charged to the expense of the Technical Assistance Bureau.

6. In summary, therefore, it can be said that within ICAO virtually all substantive costs applicable to the over-all management and organization of the technical assistance programme are allocated to the Technical Assistance Bureau budget and are covered by Agency Overhead Costs received from the different funding sources. Those relatively small costs which, under a pure accounting system, could be debited to the technical assistance programme but which are not, are regarded as of insufficient importance to justify further action. They represent the Agencies' own contribution to technical assistance and the development of civil aviation.

7. It has long been the view of ICAO, not only its Secretariat and Council but also its Assembly of Member States, that this is the most efficient method of operation and should be continued. The ICAO Assembly meets once each three years, and on each occasion an original Resolution is reaffirmed, which states clearly that all costs associated with the operation of technical assistance activities shall be covered by funds made available by the appropriate funding organization for that purpose. It is still the view of ICAO that this position should be maintained.

8. The UNDP Governing Council has suggested that Agencies, in making their submissions, should indicate their definition of the term "Overheads" and the cost elements involved in technical assistance operations. Many words can be written on this subject but, in summary, ICAO considers that all costs associated with technical assistance activities should be separated from the cost of operating the Agency's Regular Programme and should constitute the definition of "Overheads". Expressed more precisely, all staff, travel or associated costs, directly or indirectly relating to technical assistance project formulation, implementation, evaluation and associated matters, arising directly from the Organization's operation of technical assistance projects should be debited to the Overhead account.

9. Quite apart from the financial considerations, which are at this time the preoccupation of the UNDP Governing Council, there are other important considerations which arise from the clear separation of regular programme and technical assistance programme activities. By its very nature, technical assistance is subject to more variations from year-to-year, even month-to-month, than the operations of an Agency's Regular Programme, whose work programme covering a period of several years is established by Member States through their Assemblies, and which is subsequently controlled through Governing Councils and the Head of the Secretariat, together with other Committees or Commissions which may exist. Technical assistance is, however, invariably operating on a different time scale, frequently not knowing much in advance the totality of the projects which an Agency will be asked to execute; with frequent changes or revisions, and equally frequently with demands created at short notice and which have to be satisfied.

10. The administrative processes which apply to Regular Programme activities are, therefore, less applicable, and in our view less appropriate, than those required for the best possible operation of technical assistance programmes. Investing a degree of autonomy within the division or bureau responsible for technical assistance is therefore necessary, if it is to be capable of

responding, frequently at short notice, to the ever-changing requirements of technical assistance. This applies not only to projects operated through UNDP funds, but those operated through Funds-in-Trust or other funding sources. ICAO considers that it has developed a suitable and efficient machinery of over-all management and administration, clearly separating the management and administration of technical assistance from Regular Programme activities, and would wish this situation to continue.

11. Although ICAO is a relatively small Agency within the United Nations system, its total technical assistance programme is now about 50 per cent greater, measured in financial terms, than its Regular Programme budget. It is expected that this ratio will either remain or will further increase over the next several years. Maintaining a clear separation between Regular Programme and Technical Assistance Programme activities is, therefore, essential, both in respect of responding to the different methods of operation required for technical assistance and also in the separation of management costs.

12. There is as yet no exact system of determining or measuring the amount of effort which should be applied to technical assistance activities by technical assistance management and administrative staff in order to achieve the optimum of results compared with costs involved. For example, should even more frequent visits be made to projects in the field than is currently the case, and which would therefore increase the over-all costs; should even greater evaluation be conducted in respect of projects individually or collectively, which would again increase total annual costs; should further refinements be developed in the methods currently practiced in the recruitment of experts, which again could add to the over-all costs of management and administration? Other examples could be cited.

13. In the opinion of ICAO, we are operating an efficient programme, striking a balance between proper expenditure of monies to achieve the above-stated criteria, but without excess. We cannot, however, be the sole judge of our operations; this must be the prerogative of others. In general, however, we find that Governments, UNDP Resident Representatives, Funds-in-Trust programme recipients, are satisfied with the totality of the service being given to them. Where deficiencies occur, ICAO has the reputation of taking prompt action, and in general terms of making the most use of available financial resources.

14. In summary, it is our considered view that the current practice of paying Agencies on a percentage basis of the amount of programme actually delivered is the most efficient method and incorporates within it the necessity for efficiency and some incentive. ICAO has continuously "lived within" its Overhead Costs, obtained from different funding programmes, has never requested additional funds from any source, and believes that the appropriate percentage is about 14 per cent, under prevailing conditions. In the case of ICAO, this implies a reasonable stable US dollar rate of exchange, coupled with a combined technical assistance programme regularly increasing in size. It naturally follows that if either of these two criteria is very significantly affected, in the negative sense, justification could exist for an increase in the Agency Overhead Cost percentage.

-----