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AGENCY OVERHEAD COSTS

Expanded Preliminary Note on a New System for Agency Support Costs

Attached is the Expanded Preliminary Note on a New System for Agency Support Costs (JIU/NOTE/78/1) which has been prepared by the Joint Inspection Unit in response to the request of the intergovernmental Working Group on Overhead Costs, at its first session.1/

1/ DP/WGOC/L.1, para. 29, operative para. 5.

EXPANDED PRELIMINARY NOTE ON A NEW SYSTEM
FOR AGENCY SUPPORT COSTS

Prepared by
Joint Inspection Unit

Geneva
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Expanded Preliminary Note by the Joint Inspection Unit on a
New System for Agency Support Costs

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Forward

1. The intergovernmental Working Group on Overhead Costs (WGOC) of the Governing Council of UNDP on 17 January 1978 adopted a decision which among other things:

"5. Requests the JIU to submit a further and expanded preliminary note elaborating its outline of a new system for support costs as contained in DP/WGOC/1, including the completion of the percentage figures and the special formulae to be incorporated in the table at the end of that document, taking account also of economies of scale and nature (including size) of projects; the note should also explain the factors which account for variations in average overhead costs in different Agencies, including the impact of exchange rates and cost of living factors; requests the Administrator and the Executive Heads of the Agencies to submit to the Working Group their comments on this JIU Note;" 1/

2. This document responds to the above request. To facilitate its consideration by the Working Group, JIU has expanded and completed the note presented to WGOC as document DP/WGOC/1 of 21 November 1977. Paragraphs 3-12 below are reproduced, with some minor changes, from document DP/WGOC/1. Because of the short time available to prepare this note the views expressed are to be considered as 'preliminary' until such time as there is an opportunity to discuss the details with the United Nations agencies 2/. In the meantime, figures should be considered as illustrative.

I. General Considerations

3. JIU confirms its previously stated view 3/ that the question of whether overheads should be reimbursed by UNDP or provided from the regular budgets of the Agencies is a policy question which can only be decided by the competent governing bodies in the light of decisions of the General Assembly. The views expressed herein are without prejudice to any decisions regarding this policy question.

4. Each organization in the United Nations system has over the years accumulated knowledge and experience which enables it to make a major contribution to technical co-operation. In addition, each Agency by its participation in technical co-operation acquires practical experience which enhances its regular programme and thus its competence to advise developing countries on technical questions. Therefore, JIU believes that the United Nations organizations should continue to play a major role in technical co-operation and that in the future their substantive contribution should be reinforced.

5. There is no doubt that in order to play this role effectively the organizations require resources additional to those which are available in their regular budgets. However, in its report to be issued in April 1978, on "The Role of Experts in Development Co-operation", JIU is suggesting measures which if implemented would permit economies in both project and support costs aimed at increased cost effectiveness without detriment to the technical contributions of agencies.

1/ Document DP/WGOC/18 of 18 January 1978.

2/ At this writing JIU has received only one comment from an Agency, on the original preliminary JIU note (DP/WGOC/1).

3/ See JIU/REP/74/7, paragraph 15.

6. The existing formula for the reimbursement of overhead costs to agencies, based on 14 per cent of project costs, represents a pragmatic compromise, and though in existence for some time it has no scientific basis. While having the merit of simplicity it is inadequate. Even under traditional project execution, where a United Nations agency provides all the international project inputs, this formula has defects. It takes no account of the different types of projects or of the mix of project components. As a result a project consisting largely of equipment or sub-contracts for which agency support is less costly has the same overhead reimbursement as a project where experts predominate and for which agency support is more costly. Nor does it take any account of major differences in costs at the Headquarters of the various Agencies or of economies of scale. The deficiencies of the existing formula, for obvious reasons, will be accentuated if new dimensions providing greater variety in the methods of project execution, and particularly Government execution of projects, become a reality.

7. Therefore, the time has come to devise a new system for agency support costs. Because these costs represent for UNDP alone some \$ 55 million per year and because the existing method could not be used when features of "new dimensions", particularly Government execution of projects, are introduced, an effort is required to devise a new system. Although the proposals of JIU in this document are more complex to develop and describe than the existing 14 per cent formula, their application using the table in IV.C. would not be unduly complex.

II. Definition of Support Costs

8. The Inspectors are aware of various definitions that have been suggested for overhead costs but note that the Governing Council feels that a clearer definition, comprising cost elements, is required. The dictionary definition of 'overhead costs' as "those (the costs) due to office expenses, management, interest on capital, and other general needs of business" (Concise Oxford Dictionary) indicates that the term 'overhead costs' is not wholly appropriate in the context of reimbursement to Agencies. It implies that these expenses are mainly administrative and non-technical. This is far from being true. The value of the United Nations agencies involvement in UNDP rests upon their recognized technical competence and their contribution is both specific in relation to a particular project and broad as regards sectoral planning. The activities of the headquarters or regional offices of the agencies are essential for the technical success of a project.

9. Other factors to be considered regarding overhead costs are:

9.1 A purely business relationship between UNDP and another organization of the United Nations family in fulfilment of their joint responsibilities under which there would be full reimbursement of costs would be hardly appropriate. Also support costs should not be used to pay expenses which could be covered by regular budgets.

9.2 Technical wisdom does not flow in one direction from agencies to projects. The agencies do not only give, they also receive. The involvement of the agencies with projects gives them invaluable practical experience, the feedback from which increases their technical competence to carry out both their regular programmes and their role in technical co-operation.

10. Within this perspective and without anticipating any eventual decision on policy (see paragraph 3), JIU has assumed that for the time being both Agencies from their regular budget and UNDP from its budget should contribute to support costs.

11. In the light of the above analysis, the term "overhead costs" should be replaced by "support costs". Support costs may be defined as the sum total of expenses of a United Nations agency incurred as a result of its participation in technical co-operation programmes. Support costs should be divided into two categories:

11.1 Programme Support Costs may be defined as that part of support costs devoted to functions of technical co-operation which are not directly related to specific projects, but arise from the inherent competence and capacity of an organization in its particular field. See paragraph 12.1 for the components of programme support costs. 4/

11.2 Project Support Costs may be defined as that part of support costs directly related to specific projects. See paragraph 12.2 for the components of project support costs.

12. Components of Support Costs. The broad components of support costs as identified by JIU are listed below. Those marked by an asterisk (*) would be fully absorbed by an agency; others could be subject to partial reimbursement in accordance with the calculations shown in part IV.

12.1 Programme Support Costs

- * (a) Overall direction, management and legal services.
- (b) Participation in programme planning; country programming, sectoral studies, programme evaluation, etc.
- * (c) Research in development questions.
- * (d) Technical documentation services.
- * (e) Participation in inter-governmental and inter-agency meetings on technical co-operation activities.
- * (f) Writing, translating and printing of documents not related to specific projects.
- * (g) Public information on technical co-operation activities.
- * (h) Office space, furniture, equipment, supplies, utilities.

4/ JIU notes that in many United Nations documents the term "Programme Support Costs" has been used to mean all of the costs associated with support to UNDP.

* To be absorbed fully by Agencies.

12.2 Project Support Costs

(a) Technical Project Support

- (i) Participation in project planning.
- (ii) Technical support and supervision of experts and consultants.
- (iii) Advice on training programmes.
- (iv) Advice on equipment specifications.
- (v) Technical negotiation and supervision of sub-contractors.
- (vi) Technical reporting.
- (vii) Participation in project evaluation, revision and follow-up.

(b) Administrative Project Support

- (i) Recruitment of experts and consultants.
- (ii) Personnel administration of experts and consultants.
- (iii) Equipment purchase and inventories.
- (iv) Training and fellowship administration.
- (v) Administration of sub-contracting.
- (vi) Project budgeting and accounting.
- (vii) Administration of miscellaneous component.

III. Special Features to be Included in the New System

13. The WGOE requested that the new system should take account of certain new features. For each new feature a method is proposed below.

A. Adjustment for Economies of Scale

14. One explanation for the wide differences in support costs incurred by Agencies is that those Agencies with comparatively large UNDP programmes can introduce organizational and procedural measures, including the use of computers, which enable them to have lower per unit costs for support, i.e. economies of scale. For example, FAO, the organization with the largest UNDP programme reported that its total support costs for UNDP activities amounted to only 13.7 per cent of project costs in 1976; ^{5/} organizations with smaller UNDP programmes usually had much larger percentage costs for 1976, e.g. ILO 31.2 per cent; UPU 43.7 per cent; UNESCO 20.9 per cent. On the other hand ICAO, a small Agency, has taken measures to limit its total expenditure for support of UNDP activities to 14 per cent of project costs.

^{5/} For an explanation of this relatively low percentage, see paragraph 37.1.

15. For reasons given in IV.B, data is insufficient to justify a precise formula to take account of economies of scale. But JIU believes that a formula can be devised based upon experience and judgement and be used subject to its verification. Also the information requested by the WGO from Agencies may help to refine the formula. Such a formula would be preferable to bilateral negotiations between UNDP and each Agency concerned. To avoid raising overall costs and to take account of both economies of scale for the large organizations and added costs of the small organizations the formula should provide for both plus and minus adjustments.

16. The first step would be to calculate the average percentage of project costs administered by the 17 Agencies receiving UNDP funds. For 1976 this average was approximately 6 per cent of the total UNDP project costs.

17. Agencies whose project costs are above 6 per cent would have their support costs reduced and those below 6 per cent would have their support costs increased. The amounts of increase or decrease are suggested below. The calculations were made in such a way that the net result would be that the increases would be roughly equivalent to the decreases.

17.1 For Agencies whose project costs are above the average, the reduction in support costs would amount to 0.15 times the figure above the average, e.g. for an Agency whose project costs represent 8.9 per cent of the total, its support costs would be reduced by 2.9 (difference between 8.9 and the average of 6) times 0.15 or 0.44 per cent.

17.2 For Agencies whose project costs are below the average the increase in support costs would amount to 3 times the figure below the average, e.g. for an Agency whose project costs represent 2.4 per cent of the total, its support costs would be increased by 3.6 (difference between 2.4 and the average of 6) times 3 or 10.8 per cent.

18. Special Measure

For WHO, IBRD and the Regional Development Banks there should be no adjustment since these organizations can integrate their support work for UNDP with their own already extensive technical co-operation activities.

B. Adjustment for Nature and Size of Projects

19. The nature of projects as it affects support costs is reflected essentially by the mix of project components. When experts predominate, support costs are usually higher than when equipment or training components are large. This feature of the nature of projects is taken into account by the table in IV.C. There is at present little evidence to show that support costs vary with the economic or social sector of projects or with the technical subjects treated by projects. Therefore, this aspect is not covered by the new system.

20. There is general agreement that the size of projects influences the amount of support costs required. Just as economies of scale are available to organizations with large total programmes, at the individual project level large projects generally require proportionately less support costs than small projects. Some evidence for this is found in document CCAQ/SEC/327(FB), Annex B, appendix VI.

21. In order to take account of the size of projects in establishing the amount of support costs a formula is proposed for use at the individual project level which would apply to the amounts of project support costs calculated in accordance with the table in IV.C. Projects smaller than the average would

under this formula receive proportionately higher support costs than the large projects. In addition to more faithfully reflecting the real situation this formula might provide incentives to avoid inflating project costs.

22. Large scale projects are defined by UNDP as those with project costs of more than \$ 150,000. This figure is much too low to be used here. Instead it is assumed that it is at the level of \$ 500,000 for project costs that no adjustment would be made for size of projects. Projects costing significantly more or less would have minus or plus adjustments. The \$ 500,000 figure is higher than the present average cost of projects which approaches \$ 300,000, but this figure is overly influenced by a large number of very small projects.

23. The formula proposed to relate support costs to the size of projects would apply under all methods of execution and is as follows:

23.1 No adjustment would be made for projects with project costs between \$ 400,000 and \$ 600,000.

23.2 Projects costing more than \$ 600,000 would have their project support costs (as calculated according to the table in IV.C) reduced. The amount of this reduction would be:

(a) Minus 2 per cent of project costs between \$ 600,000 and \$ 1 million.

(b) Minus 3 per cent of project costs over \$ 1 million.

Thus, for example, a project with project costs of \$ 1.5 million would have its support costs reduced by \$ 23,000

(i.e. 2 per cent of \$ 1 million - \$ 600,000 = \$ 8,000
plus 3 per cent of 500,000 = \$ 15,000)

23.3 Projects costing less than \$ 400,000 would have their project support costs (as calculated according to the table in IV.C) increased. The amount of this increase would be:

3 per cent of the difference between \$ 400,000 and the actual project costs subject to a maximum of not more than the original amount of project support costs as calculated from the table in IV.C.

Thus for example a project with project costs of \$ 150,000 would have its support costs increased by \$ 7,500, provided that this did not exceed the support costs calculated from the table in IV.C.

C. Adjustment for Method of Project Execution

24. In its report on the "Role of Experts in Development Co-operation", JIU envisages three broad methods of project execution. They are:

24.1 The traditional method under which a United Nations Agency provides the international project inputs (experts, equipment, fellowships, etc.).

24.2 Government execution under which the host Government provides these inputs.

24.3 Co-operation Agreements which combine features of sub-contracting and twinning of institutions and under which most international project inputs would be provided by an associated institute(s).

25. Under each of these methods, JIU believes that Governments will continue to wish to receive extensive technical support from the appropriate United Nations Agency but that the volume of administrative support required and its cost will be less for methods 24.2 and 24.3.

26. The table for the calculation of support costs in IV.C takes into account the characteristics of these three methods of project execution and the figures which appear in the table are explained in Annex I.

D. Adjustment for Variations in Cost at Agency Headquarters

27. Most Agencies spend the great majority of their support funds at their Headquarters, although WHO is an exception. The cost of providing support varies very much among the Headquarters duty stations because of differences in cost of living expressed in US dollars. For example, the cost of a P.4 recruitment officer (who does similar work at all organizations) in Geneva is some \$ 14,000 per year more than in Rome or Montreal.

28. A good indicator of the differences in cost of support work expressed in US dollars at various duty stations is provided by the post adjustment system. This system reflects differences due both to varying rates of increase in local cost of living and currency fluctuations. Therefore, the adjustment proposed here is based upon the post adjustment system.

29. However, only partial compensation for differences in post adjustment is proposed for three reasons:

29.1 Most organizations spend part of their support funds away from their headquarters - at regional or country offices.

29.2 JIU has often proposed greater decentralization of support activities to regional offices and to country establishments. This recommendation is repeated in JIU's report on the "Role of Experts in Development Co-operation". The larger Agencies have accepted decentralization in principle and most have taken steps in this direction.

29.3 Under Government execution of projects, the costs at Agencies' headquarters have less importance since many of the support activities will be carried out by the host Government. Should this technique develop, its effect would be significant.

29.4 In view of three points made above, it is suggested for the time being that only part of the effect of differences in post adjustment be reflected in adjustments, plus or minus.

30. The adjustment for variations between costs at different headquarters would be calculated as follows:

30.1 The weighted (by project costs) average of post adjustment at each Agency's headquarters would be calculated. In December 1977 this weighted average was 8 classes of post adjustment.

30.2 For each full class of post adjustment above or below the weighted average the support costs of the Agency concerned would be increased or decreased by 1.5 per cent.

30.3 Under this proposal and on the basis of December 1977 post adjustments, Agencies' support costs would be adjusted as follows 6/:

- (a) ILO, ITU, UNCTAD, UPU, WHO, WMO: plus 12 per cent of support costs
- (b) IAEA, UNIDO: plus 6 per cent of support costs
- (c) UNESCO: plus 4.5 per cent of support costs
- (d) UN, UNDP: minus 3 per cent of support costs
- (e) IMCO: minus 4.5 per cent of support costs
- (f) IBRD, IDB: minus 6 per cent of support costs
- (g) ASDB: minus 7.5 per cent of support costs
- (h) FAO, ICAO: minus 9 per cent of support costs.

31. Under this method Agencies located in duty stations with above average post adjustments would receive additional support costs and those with below average post adjustments would lose support costs. Since the additions and losses would be roughly equal this adjustment would not affect the total of support costs paid by UNDP.

E. Stability of Reimbursement of Support Costs

32. Support funds are used by Agencies to equip themselves to perform functions in support of UNDP activities. This requires the creation of organizational units and posts. Such organizational structures cannot be adjusted to major fluctuations in support cost income without loss in efficiency and cost effectiveness. It is in the interest of Member States that Agencies be able to plan their work in an orderly fashion without financial and organizational crises. In addition there is good reason to believe that expenditures on technical support to projects by Agencies may in many situations be more cost effective and thus make a greater contribution to development than expenditures on long-term resident experts. Therefore, exaggerated reduction in support costs might well be counterproductive.

33. To introduce a measure of stability which is required to maintain the efficiency of Agencies it is proposed that support costs should not, as a rule, decline by more than 10 per cent from one budgetary period (not exceeding two years) to the next, even in the case of reductions in the Agency's programme. It may be that the application of this measure would result in the first period in a slight increase in overall support costs payable by UNDP to all Agencies. This might happen because although the positive adjustments would apply fully the negative adjustments would be limited to 10 per cent. In order to avoid an overall increase in the amounts payable by UNDP to Agencies the positive adjustments might have to be reduced proportionately by the amount necessary to avoid such an increase.

IV. Calculation of Support Costs

A. Share of Support Costs Paid by UNDP and Agencies

34. JIU believes that the extent to which support costs should be shared between UNDP and Agencies is a policy question which can only be decided by the competent intergovernmental bodies.

6/ Regional Commissions also "execute" projects and the United Nations support costs should be adjusted to take account of this.

34.1 At present the only decision which can guide the calculations is the existing practice of reimbursing 14 per cent of project costs for support work. This 14 per cent represents only that part of the total support costs paid by UNDP. In 1973 the total support costs were estimated to average 23.3 per cent of project costs which meant that the regular budgets of Agencies paid on the average 9.3 per cent. At present the total is felt to be somewhat lower.

However, average figures are misleading if not meaningless. The data from which they are derived are unreliable and show extreme and partially unaccountable differences in total support costs ranging from 13.7 per cent of project costs to over 40 per cent.

34.2 Therefore, the calculations in this document assume that a project under traditional execution, of average size, with an average mix of project components and before any of the adjustments suggested in section III, would have its support costs reimbursed at the rate of 14 per cent of project costs.

34.3 Thus an 'average' project would have 14 per cent reimbursement. But it will be seen that under the proposed new system the very great majority of projects would be reimbursed at different rates. When the table in IV.C is applied to all projects the net results, in all likelihood, would be somewhat lower than 14 per cent. How much lower would depend upon such unpredictable factors as the extent to which Government execution of projects and co-operation agreements are used, the extent to which the expert component of projects declines in favour of other components such as equipment or sub-contracting. Also there would be some redistribution of the amounts reimbursed among the Agencies as a result of applying the special features in section III. For the effect of the application of the new system on a sample of projects, see Annex II.

35. Should intergovernmental bodies decide in the future that the 14 per cent reference point should be changed to provide, for example, that UNDP and the Agencies should each pay half of the support costs, the table in IV.C could be adjusted in consequence. But this could be done with a reasonable degree of accuracy only if cost measurement techniques (along the lines suggested in IV.D) were adopted by all Agencies.

B. Available Data and Calculation of Support Costs

36. The data used for the calculation of support costs shown in Annex I comes from the following sources:

36.1 A long list of documents devoted to the analysis of overhead costs including the documents listed in Annex V of JIU/REP/74/7 and, more recently, such major documents as A/C.5/31/33, DP 259 and addenda, DP/284, A/C.5/32/29, DP/WGOC 1 to 18, etc.

36.2 In addition, various internal documents of CCAQ and a report of a working party on review of cost measurement systems.

36.3 Replies by Agencies received in the second half of 1977 to a questionnaire despatched by JIU.

37. It must be recognized that this mass of documents, useful as it was, did not provide sufficiently precise data for the accurate calculation of the percentages of reimbursement of support costs. In fact some of the data was contradictory and there are partially unexplained extreme variations between the figures provided by the various Agencies (see, for example, paragraphs 12 to 14 of JIU/REP/74/7). However, the most important of the variations would be corrected by the adjustments proposed in section III above.

37.1 For example, FAO reports that its actual total support costs for 1976 amounted to 13.7 per cent of project costs which is slightly less than what is reimbursed by UNDP. Yet the actual support costs of most other Agencies are very much greater, probably averaging almost twice as much. There are three main explanations for this.

(a) FAO is administering a vastly greater part of project costs than any other Agency - some 27 per cent of the total. This has permitted FAO to introduce effective structures and procedures which reduce costs by benefiting from economies of scale.

(b) The FAO headquarters is at a duty station with the lowest post adjustment (Class 2 in December 1977) of any Agency. Thus its staff and other costs are much lower.

(c) The average size of FAO projects is much larger than those of most other organizations and it is proportionately cheaper to support a large project than a small one.

37.2 The special features of the new system for support costs described in Section III would have the effect of partially compensating for the above three factors.

38. In proposing percentages of reimbursement JIU was guided by the findings and recommendations contained in its report on the "Role of Experts in Development Co-operation", to be issued in April 1978. Thus certain elements of support costs are given percentage reimbursements higher or lower than would follow from a strict interpretation of the available figures, in order to reflect the judgement of JIU on what should be the relative importance of each.

39. Annex I shows in some detail how each of the figures in the table for the calculation of support costs (C below) was arrived at.

C. Table for the Calculation of Support Costs

40. The table which follows is intended for use in calculating programme and project support costs. It incorporates the adjustments described in section III. As explained previously, data used for the calculation of the various percentages are unreliable. However, JIU believes that the method used - reference point of 14 per cent for an average project (see IV.A) - does provide reasonable results.

41. Table for the Calculation of Agency Support Costs

(See Annex I for explanation of calculations and Annex II for illustrations of use of Table).

41.1 Programme Support Costs

1.5 per cent of total project costs of projects supported by an Agency regardless of methods of project execution.

41.2 Project Support Costs

Calculated for each project as follows:

Items comprising Project Support Costs	Percentage Reimbursement to Agencies		Project Costs or Part thereof to which Percentages apply
	Under Traditional Project Execution	Under Government Execution	
	%	%	
1. Technical Project Support ^{a/}	6.4	4.2	of total project cost
2. Administrative Project Support			
2.1 Recruitment	3.0	0.5	of expert component
2.2 Personnel Administration	3.0	0.1	of expert component
2.3 Equipment Procurement	3.0	0.2	of equipment component
2.4 Training Administration	5.0	0.5	of training component
2.5 Sub-contract Administration	1.5	0.2	of sub-contract costs
2.6 Accounting and Budgeting	1.0	-	of total project costs
2.7 Miscellaneous component	2.0	-	of miscellaneous component
3. Administration of Co-operation Agreements ^{b/}	1.0	-	of cost of co-operation agreement

N.B. Percentages in the above table cannot be added to give a total percentage for project support since those under item 2 mainly refer only to a part of project costs. This feature permits different rates of reimbursement for projects with different mixes of components.

^{a/} Includes all items listed in paragraph 12.2.(a). See Annex I for a breakdown of the calculation.

^{b/} See JIU/REP/78/3 (Role of Experts in Development Co-operation) for explanation of Co-operation Agreements.

41.3 Adjustments to Project Support Costs

(a) Adjustments for size of projects (see III.B)

<u>Range of Project Budget</u>	<u>Adjustment to Project Support Costs</u>
(i) Between \$ 400,000 and \$ 600,000	No adjustment
(ii) Between \$ 600,000 and \$ 1 million	Minus 2 per cent of amount over \$ 600,000
(iii) Over \$ 1 million	Minus 2 per cent of \$ 400,000 and minus 3 per cent of amount over \$ 1 million
(iv) Below \$ 400,000	Plus 3 per cent of difference between \$ 400,000 and actual project costs subject to a maximum (equal to project support costs as calculated from 41.2)

(b) Adjustments for nature of project and method of project execution

(See III.B and C). (These adjustments are incorporated in the table in 41.2).

41.4 Adjustments to Total Support Costs of Each Agency

(a) Adjustment for Economy of Scale (see III.A)

- (i) For Agencies whose percentage of project costs is above the average a reduction in support costs of 0.15 times the amount above the average.
- (ii) For Agencies whose percentage of project costs is below the average, an increase in support costs of 3 times the amount below the average.

(b) Adjustment for Variations in Costs at Agency Headquarters (see III.D)

- (i) The weighted (by project costs) average of post adjustments at each Agency's headquarters is calculated.
- (ii) For each full class of post adjustment above or below the weighted average the total support costs of the Agency concerned would be increased or decreased by 1.5 per cent.

41.5 Adjustment for Stability of Reimbursement of Support Costs (see III.E)

Once the calculations described above have been made and if they result in an overall decrease in an Agency's support costs of more than 10 per cent compared with the previous budgetary period, UNDP would pay to the Agency an amount which would bring the reduction to 10 per cent.

42. Project Support Costs as Part of Project Budgets. Project support costs could be included in project budgets and financed from IPF's (which would be increased for this purpose by transfer from the existing account for overhead costs in proportion to the amount of the IPF). The host Government when planning projects would then be fully aware of their entire cost and of the nature of the services to be provided by the United Nations organization.

42.1 Such an approach is also logical because there appears to be no reason to segregate the support costs in what appears to be an 'overhead' budget when these costs are just as essential to the success of a project as costs which are now charged directly to project budgets such as family allowances for experts.

42.2 Naturally the project support costs if included in project budgets would be transferred by UNDP directly to the appropriate United Nations organization.

D. Evolution of Cost Measurement Systems

43. In 1974 JIU prepared a "Report on Cost Measurement Systems in the Organizations of the United Nations Family and the Possibility of Developing Them into Cost-Benefit Systems Integrated into Comprehensive Management Systems" (JIU/REP/74/7). This report was extensively debated within the United Nations system, particularly by working groups of CCAQ. But it must be admitted that the results have been disappointing. There appears to have been a strong current of opinion in favour of maintaining the existing reimbursement formula (14 per cent of project costs) and a consequent disinclination to delve more deeply into the question in search both of a more accurate identification of support costs and a management tool for improving cost effectiveness.

44. In 1973 five organizations had a cost measurement system which followed a pattern developed by CCAQ. At present these studies are carried out by only one Organization (FAO) and one other Organization (UNESCO) is in the process of introducing a simplified version.

45. The defects of the cost measurement systems are the same as those identified in detail in JIU/REP/74/7. There has been no notable progress in enabling the systems to respond to such essential questions as:

45.1 Actual cost of the various components of support costs. Only costs by broad groups of activities are available and for example the cost of recruiting an expert or the personnel administration of an expert or the purchase of equipment etc. are unknown or provided as estimates based upon experience. Thus the cost measurement studies appear to obscure rather than clarify certain essential questions.

45.2 There are extreme differences between Agencies in the estimates of the costs of doing support work and these differences can be only partially explained (see IV.B above and paragraphs 12 to 14 of JIU/REP/74/7). The cost measurement systems shed no light on this issue. Yet it is through an understanding of these differences and their causes that steps can be taken to improve cost effectiveness.

45.3 The cost measurement systems give information only on the broad components of support costs but give no guidance on differences in costs due to the various types, sizes or composition of projects or to the methods or techniques of project execution. They are not project oriented. Thus the cost measurement systems throw little light on the issues described in Section III of this report.

45.4 Cost measurement systems should not be seen as providing information only on the cost of support work. This is too limited use of a powerful tool. Other equally important benefits are:

(a) Proving guidance for improving cost effectiveness through structural and procedural reforms. By comparing costs for components of support work between Agencies attention is called to less than average performance and methods for improvement can be sought by emulating the most successful organizations.

(b) Monitoring of project implementation.

(c) Providing information for evaluation of projects and assessment of their cost effectiveness.

45.5 Insufficient information is available to provide guidance on the cost effectiveness of the different methods of project execution. Thus although efforts have been made, though imperfectly, to measure support costs, these efforts have not been extended to project costs. Yet project costs are seven times greater than support costs and offer very much more scope for both economy and increased cost effectiveness. An attempt is made in JIU's report on the "Role of Experts in Development Co-operation" to provide guidelines for assessing the cost effectiveness of methods and techniques of project execution.

46. The essential conclusion that can be drawn from the above is that the cost measurement systems should be oriented towards individual projects so that they can take account of and provide information on such factors as the nature and size of projects, the mix of project components and the method of execution.

47. Cost measurement as originally envisaged by the organizations has fallen into disuse because the benefits did not seem to be commensurate with the efforts required. JIU believes that, if the organizations had been able to incorporate in the systems elements proposed by JIU in its report JIU/REP/74/7 and if the systems had been operated by all large organizations, the results would have justified the effort.

48. Given the present situation and the concern of the Governing Council with the level of support costs it is suggested that, if the new system for support costs proposed in this document is adopted, the Agencies reorient their cost measurement work to simplify it and to adapt it to the requirements of the new system for support costs.

49. It is not the objective of this document to propose a new method of cost measurement, although it is certain that the adoption of such a system, at least in the larger Agencies, would be extremely desirable. It is hoped that CCAQ, in the near future, will devise a simple system for use by all organizations.

50. The internal workings of a new system for cost measurement could be different in each organization and be related to the organization's structure and administrative practices. Probably the Management Services or the equivalent of each organization should be responsible for formulating the details of the system and for applying it.

51. Although the internal workings of the system in each organization could differ, the 'outputs' should be identical. Any new cost measurement system should serve, among other things, to verify the figures shown in the table in Section IV.C and to correct and revise them regularly to take account of new trends - it would thus be possible not only to update the method for the calculation of support costs, but also to exploit all possibilities of further reducing these costs.

V. Summary

Outline of a New System for Agency Support Costs

52. The existing formula for the reimbursement of overhead costs to agencies, based on 14 per cent of project costs, represents a pragmatic compromise, and though in existence for some time, it has no scientific basis. While having the merit of simplicity it is inadequate. Moreover, its deficiencies will be accentuated, for obvious reasons, if new dimensions providing greater variety in the methods of project execution - particularly Government execution - become a reality. JIU feels the time has come to devise a new system. Although the one suggested in this document is more complex to describe and develop than the existing 14 per cent formula, its application would lead to economies and would not be unduly complex.

53. The proposed system is based on the following principle: instead of reimbursing support costs globally - as is done under the present formula - on the basis of the Agency's total UNDP financed project expenditures and without distinguishing between the elements making up these costs, the system suggested in this document would:

53.1 Allow for an analysis and breakdown of the different components of support costs, and;

53.2 Establish the percentages for the reimbursement of support costs on a project by project basis.

54. Support costs may be defined as the sum total of expenses of a United Nations agency incurred as a result of its participation on technical co-operation programmes. Support costs should be divided into two categories:

54.1 Programme Support Costs may be defined as that part of support costs devoted to functions of technical co-operation which are not directly related to specific projects, but arise from the inherent competence and capacity of an organization in its particular field. (See paragraph 12.1 for the components of programme support costs.)

54.2 Project Support Costs may be defined as that part of support costs directly related to specific projects.

55. Programme Support Costs would be reimbursed by UNDP to each Agency in a fixed percentage of the project costs of the Agency to partially compensate for work in programme planning - country programming, related sectoral studies, etc. (See table in IV.C.)

56. A further distinction would be made within project support costs between Technical project support and Administrative project support costs.

56.1 Technical project support costs would comprise the following elements:

Participation in project planning; Technical support and supervision of experts and consultants; Advice on training programmes; Advice on equipment specifications; Technical negotiation and supervision of sub-contractors; Technical reporting; Participation in project evaluation, revision and follow-up.

56.2 Administrative project support costs would comprise:

Recruitment of experts and consultants; Personnel administration of experts and consultants; Equipment purchase and inventories; Training and fellowship administration; Administration of sub-contracting; Project budgeting and accounting; Administration of miscellaneous component.

57. For the reimbursement of technical support costs a fixed percentage of total project costs would be applied (the percentage would be higher for traditional project execution and lower in the case of Government execution). For the reimbursement of administrative support costs, however, the amounts to be reimbursed for each administrative activity (e.g. recruitment, procurement of equipment, administration of sub-contracts, etc.) would be expressed as percentages of the corresponding component of the project budget (e.g. expert component, equipment component, sub-contract costs, etc.). For details see table in IV.C and Annex I.

58. Adjustments to Project support costs are proposed to take account of variations in the cost of support work deriving from:

58.1 The nature of projects: i.e. support costs are higher when the expert component predominates and lower when the other components are large (see III.B and IV.C);

58.2 The size of projects: i.e. larger projects generally require proportionately less support costs than smaller ones (see III.B and IV.C);

58.3 The method of project execution: i.e. the cost and volume of the administrative support required under Government execution of projects and Co-operation Agreements would be lower than for the traditional method (see III.C and IV.C).

59. Adjustments to the Overall Annual Support Costs are proposed to take account of:

59.1 Economies of scale deriving from the organizational structure of the Agencies having comparatively large UNDP programmes, which enables them to have lower per unit costs for support activities (see III.A and IV.C).

59.2 Variations in costs at Agencies' Headquarters because of differences in cost of living, as expressed in US dollars. A partial compensation of such differences, on the basis of the post adjustment system, is proposed (see III.D and IV.C).

59.3 The need for stability in the reimbursement of support costs in order to avoid reducing the efficiency of the organizational structures performing functions in support of UNDP activities (see III.E and IV.C).

60. It is expected that the system described in IV.C would result in an overall reduction in Agency support costs. It can be estimated that in the case of traditional project execution the present 14 per cent figure might still represent a maximum for Agency support costs for projects with a high expert component. However, the support cost percentages in the case of projects with lower than average expert components, projects carried out under Government execution or Co-operation Agreements will most certainly be much lower. The precise amount of overall reductions cannot be estimated as it depends on many variables (nature of projects, mix of components, type of execution, costs at Agency headquarters, etc.). It should also be kept in mind that the figures in table IV. C and Annex I, are based on incomplete and inaccurate data 6/, and hence contain an element of judgement. The margin of error does not appear, however, to be great enough to invalidate the overall results.

61. The effective implementation of the system suggested in this document would require corrections and revisions so that reliable data on the actual costs could progressively be obtained and percentages corresponding to reality established, which is the only way to facilitate further reductions in support costs. This can be made possible only if, as JIU has previously suggested in JIU/REP/74/7, cost measurement systems are developed, at least in the larger Agencies. Such systems should be as simple as possible and allow for the exploitation of results on a project by project basis.

62. It is stressed that the new system for the reimbursement of support costs outlined in this document represents the preliminary views of JIU (see paragraph 2).

6/ The main sources of data were CCAQ documents and replies to a JIU Questionnaire to Agencies (see paragraph 36.1 for list of documents). As explained in paragraph 34.2, all calculations have been made on the basis of the present 14 per cent reimbursement formula.

ANNEX 1

CALCULATION OF PERCENTAGES OF REIMBURSEMENT

1. This annex shows how each of the figures contained in the Table for the Calculation of Support Costs IV.C) was calculated. Annex II provides illustrations of the application of the table.

2. Calculations are shown in the order of the table in IV.C and under the same headings.

I. Programme Support Costs

This element provides partial compensation for programme planning, including agencies' contributions to country programming, sectoral studies and other related work on behalf of UNDP. No compensation is included for the items marked with an asterisk (*) in paragraph 12.1.

For the reasons given in JIU's report on "Country Programming as an Instrument for Cooperation and Coordination at the Country Level" (JIU/REP/76/10) JIU believes that more resources should be devoted to this element. But the additional resources should come mainly from the Agencies' own budgets since the Agencies' regular programmes receive valuable inputs as a result of this work.

a) Agencies which carried out formal cost measurement studies reported as follows on their costs for programme planning. Whereas five organizations carried out such studies in 1973 by 1975 only two were still doing so, but UNIDO no longer reported by the standard CCAQ breakdown.

(i) Part of total support costs (UNDP + Agency contribution) for programme planning.

(ii) Part of UNDP contribution to support costs (14% of project costs) for programme planning.

		<u>Agencies</u>					
		UN	ILO	FAO	WHO	WMO	UNIDO
1973	(i)	1.6%	2.6%	1.3%	3.2%	-	4.1%
1973	(ii)	1 %	1.2%	1.0%	1.6%	-	1.8%
1974	(i)	-	2.7%	1.2%	-	1.7%	2.3%
1974	(ii)	-	1.2%	1.1%	-	0.9%	1 %
1975	(i)	-	-	1.2%	-	-	1.7%
1975	(ii)	-	-	1.2%	-	-	0.9%
1976	(i)	-	-	1.3%	-	-	-
1976	(ii)	-	-	1.3%	-	-	-

(the above are percentages of project costs)

b) The weighted average figures for programme planning in 1973 represented two of the then 23.3% for total support costs (i) and 1.2 of the 14% UNDP contribution to support costs (ii). Averages for later years are not meaningful because of the small number of organizations reporting.

c) Several Agencies which were not in 1976 carrying out cost measurement studies estimated, in response to a JIU questionnaire, their costs for programme planning in 1976.

<u>Agency</u>	(i) <u>Part of total support costs (UNDP + Agency contribution) for programme planning.</u>	(ii) <u>Part of UNDP contribution to support costs (14% of project costs) for programme planning.</u>
ICAO	1.4% of project costs	1.4% of project costs
ILO	2.2%	1 %
UNIDO	2.2%	1 %
UPU	8.5%	2.7%
WMO	3.3%	2.1%

d) For the reasons given in Section IV.A calculations in this Annex are based upon the part of the UNDP contribution to support costs.

e) Proposed amount of reimbursement for programme support costs
An amount of 1.5% of project costs is proposed to permit Agencies to devote the needed resources to programme planning. It should be noted that the adjustments proposed in Section III would have the effect of decreasing this amount for large Agencies and those with Headquarters with low cost of living and increasing it for some other Agencies. For UNDP since the Office of Project Execution does not participate in programme planning there would be no reimbursement for programme support costs.

II. Project Support Costs

Included under this heading are costs directly related to specific projects. The amounts of reimbursement would vary with the mix of project components and the methods of project execution.

1. Technical support

JIU concludes in its study on the "Role of Experts in Development Cooperation" that technical support to projects by Agencies is their most important function. Whereas administrative support should gradually decline in volume and cost through alternative and innovative approaches to project execution, technical support under all methods of project execution should be strengthened.

1.1 Project Formulation

a) The cost measurement systems provide the following figures for project formulation.

- (i) Part of total support costs (UNDP + Agency contribution) for project formulation.
- (ii) Part of UNDP contribution to support costs (14% of project costs) for project formulation

	<u>Agencies</u>					
	UN	ILO	FAO	WHO	WMO	UNIDO
1973 (i)	1.6%	1.6%	1.5%	2.3%	-	3.1%
1973 (ii)	1 %	0.8%	1.1%	1.2%	-	1.4%
1974 (i)	-	1.8%	1.1%	-	2.2%	3.5%
1974 (ii)	-	0.8%	1 %	-	1.1%	1.6%
1975 (i)	-	-	0.7%	-	-	3.6%
1975 (ii)	-	-	0.7%	-	-	1.8%
1976 (i)	-	-	0.6%	-	-	-
1976 (ii)	-	-	0.6%	-	-	-

b) The weighted average figures for project formulation in 1973 were 1.7 of the 23.3% for total support costs (i) and 1 of the 14% UNDP contribution to support costs.

c) Several Agencies which did not carry out cost measurement studies in 1976 estimated, in response to a JIU questionnaire, their costs for project formulation in 1976.

<u>Agency</u>	(i) <u>Part of total support costs (UNDP + Agency) for project formulation</u>	(ii) <u>Part of UNDP contribution to support costs (14% of project costs) for project formulation</u>
ICAO	1.1%	1.1%
ILO	1.6%	0.7%
UNIDO	3.2%	1.5%
UPU	3.3%	1 %
WMO	2.2%	1.4%

d) Proposed amount of reimbursement for project formulation

In the light of the existing defects in project formulation and their serious consequences for the effectiveness of projects (see JIU report on Role of Experts in Development Cooperation) 1.5% of project costs is proposed for project formulation which is somewhat more than what would be indicated from the above figures. This amount would be the same under Government execution of projects since the role of Agencies should be the same for project formulation under Government and traditional execution. As for all other figures, this percentage would be subject to the adjustments described in Section III.

1.2 Project Evaluation and Follow-Up

a) The cost measurement systems provide the following figures for evaluation and follow-up.

- (i) Part of total support costs (UNDP + Agency contribution) for evaluation and follow-up.
- (ii) Part of UNDP contribution to support costs (14% of project costs) for evaluation and follow-up.

	<u>Agencies</u>					
	UN	ILO	FAO	WHO	WMO	UNIDO
1973 (i)	0.5%	0.7%	0.4%	0.6%	-	0.4%
1973 (ii)	0.3%	0.3%	0.3%	0.3%	-	0.2%
1974 (i)	-	0.9%	0.3%	-	1.7%	0.3%
1974 (ii)	-	0.4%	0.3%	-	0.9%	0.1%
1975 (i)	-	-	0.2%	-	-	0.3%
1975 (ii)	-	-	0.2%	-	-	0.1%
1976 (i)	-	-	0.2%	-	-	-
1976 (ii)	-	-	0.2%	-	-	-

b) The weighted average figures for project formulation in 1973 were 0.5 of the 23.3% for total support costs (i) and 0.3 of the 14% UNDP contribution to support costs.

c) Proposed amount of reimbursement for project evaluation and follow-up

The stress placed by governing bodies on the need to improve evaluation and the observations made on this question by JIU in its report on the Role of Experts in Development Cooperation led JIU to propose 0.5% of project costs for evaluation and follow-up. Here again this figure would be subject to the adjustments in Section III.

1.3 Other Technical Support (items (ii) to (vi) of para. 12.2)

The five items under this heading correspond, though not precisely, to the "technical backstopping" item of the cost measurement studies.

a) The Cost Measurement systems provided the following figures for technical backstopping:

- (i) Part of total support costs (UNDP + Agency contribution) for technical backstopping
- (ii) Part of UNDP contribution to support costs (14% of project Costs) for technical backstopping

	<u>Agencies</u>					
	UN	ILO	FAO	WHO	WMO	UNIDO
1973 (i)	11.2%	9.2%	4.5%	12.3%	-	6.6%
1973 (ii)	7 %	4.3%	3.3%	6.3%	-	3 %
1974 (i)	-	9 %	3.3%	-	6.4%	-
1974 (ii)	-	4.1%	2.9%	-	3.2%	-
1975 (i)	-	-	2.7%	-	-	-
1975 (ii)	-	-	2.7%	-	-	-
1976 (i)	-	-	2.7%	-	-	-
1976 (ii)	-	-	2.8%	-	-	-

b) The weighted average for technical backstopping in 1973 represented 7.5 of the then 23.3% for total support costs (i) and 4.5 of the 14% UNDP contribution to support costs (ii).

c) Several Agencies which were not in 1976 carrying out cost measurement studies estimated, in response to a JIU questionnaire, their costs for technical backstopping in 1976.

<u>Agency</u>	(i) <u>Part of total support costs (UNDP + Agency) for technical backstopping</u>	(ii) <u>Part of UNDP contribution to support costs (14% of project costs) for technical backstopping</u>
ICAO	5 %	5 %
ILO	8.7%	3.9%
UNIDO	13.1%	6.2%
UPU	6.2%	2 %
WMO	5.2%	3.3%

d) Proposed amount of reimbursement for technical backstopping
Under traditional project execution 4.4% of project costs is proposed for technical backstopping. Under Government execution, technical backstopping will still be required but at less cost estimated at 2.2% of project costs. The reason is that much technical backstopping concerns the support to and supervision of experts and if experts are recruited directly by the host Government this work will decline in volume but not in importance.

1.4 Thus the percentages of project costs proposed for reimbursement of technical support costs are as follows:

	<u>Traditional Execution</u>	<u>Government Execution</u>
a) Project Formulation	1.5%	1.5%
b) Project Evaluation and Follow-up	0.5%	0.5%
c) Other Technical Support	<u>4.4%</u>	<u>2.2%</u>
Total	6.4%	4.2%

2. Administrative Support

The table in Section V C provides seven sub-items under this heading. Their purpose is to vary the amount of support costs with the mix of project components e.g. more when experts predominate and less when equipment is a major component. The cost measurement studies provide only general guidance for fixing the amounts under the headings of "non-technical backstopping

a) The cost measurement studies provide the following figures for the total of non-technical backstopping:

- (i) Part of total support costs (UNDP + Agencies) for non-technical backstopping
- (ii) Part of UNDP contribution to support costs (14% of project costs) for non-technical backstopping

		<u>Agencies</u>					
		UN	ILO	FAO	WHO	WMO	UNIDO
1973	(i)	7.6%	15.6%	11.6%	9 %	-	17 %
1973	(ii)	4.7%	7.4%	8.4%	4.6%	-	7.6%
1974	(i)	-	16.7%	10 %	-	15.8%	-
1974	(ii)	-	7.5%	8.8%	-	7.9%	-
1975	(i)	-	-	9 %	-	-	-
1975	(ii)	-	-	9.1%	-	-	-
1976	(i)	-	-	8.9%	-	-	-
1976	(ii)	-	-	9.1%	-	-	-

b) The weighted average for non-technical backstopping in 1973 represents 11.6 of the then 23.3% for total support costs (i) and 7 of the 14% UNDP contribution to support costs (ii).

c) The above figures are used only for the general verification of the figures for the sub-items which follow.

2.1 Recruitment of Experts and Consultants (including pre-service briefing)

a) Several Agencies provided estimates in response to a JIU questionnaire on the cost of recruitment, including briefing.

<u>Agency</u>	(i) <u>Part of total support costs (UNDP + Agency) for recruitment</u>	(ii) <u>Part of UNDP contribution to support costs (14% of project costs) for recruitment</u>
ICAO	1.5%	1.5%
UNIDO	2.6%	1.2%
UPU	1.1%	0.4%
WMO	1.5%	1 %

b) In September 1975 a working party on review of cost measurement systems examined in detail the question of recruitment and administration of experts and procurement of project equipment. The working party was hampered by the lack of reliable data and the different structure and methods for recruitment in the Agencies. Therefore it could not calculate cost figures. It did present interesting data which has been used for this and the following sub-items. However, it is noted that Agencies do not know how much they are spending on recruitment or other aspects of administrative support.

c) In its report on the "Role of Experts in Development Cooperation" JIU urges that more resources be devoted to recruitment by economizing on personnel administration.

d) In the table in IV.C the cost of recruitment is expressed as a percentage of the expert component of projects. Therefore, in order to arrive at a percentage figure for recruitment it was considered that one recruitment action is required for each \$60,000 of experts' costs and that a reasonable reimbursement for such action would be \$1,800 taking into account the need at times to submit more than one candidate to Governments, work for cancelled vacancies and extra work caused by the rejection of candidates by Governments.

e) Proposed amount of reimbursement for recruitment and briefing 3% of the expert component of project costs. In case of Government execution of project under which Agencies would often provide advice on request or rosters of and files of candidates the percentage would be reduced to 0.5%.

2.2 Personnel Administration of Experts and Consultants (including payroll)

a) Several Agencies provided estimates on the cost of personnel administration.

<u>Agency</u>	(i) <u>Part of total support costs (UNDP + Agency) for personnel administration</u>	(ii) <u>Part of UNDP contribution to support costs (14% of project costs) for personnel administration</u>
ICAO	1.1%	1.1%
UNIDO	0.9%	0.4%
WMO	4.4%	2.8%

b) The above figures are insufficient to give any indication of what the real cost might be. In the cost measurement studies it is found that personnel administration, which includes also part of recruitment, accounted on the average for 3 of 23.3% of support costs in 1973 or 1.8 of the 14% reimbursed by UNDP. Since the expert component accounts for over 60% of project costs these figures would become 5 and 3 if applied as proposed only to the expert component. However, in most cases the payroll function which is costly does not seem to be included.

c) In its report on the "Role of Experts in Development Cooperation" JIU suggested that by much greater decentralization and eventually by introducing a lump sum system for the payment of experts that the cost of personnel administration work would be very much reduced.

d) Proposed amount of reimbursement for personnel administration: 3% of the expert component. This would provide about \$1,500 per year per expert for personnel administration including payroll. In case of Government execution of projects under which the host Government would itself administer the experts there would only be a token reimbursement of 0.1% of the expert component to indicate that the Agency might provide advice on request.

2.3 Equipment Procurement. To be expressed as a percentage of the equipment component of projects.

a) There is no evidence in the cost measurement studies to show the percentage of the equipment component used for the procurement of equipment (preparation of equipment specifications is included under technical support). For non-UNDP projects consisting largely of equipment, Agencies charge between 4% and 8% of the cost of equipment for specifications and purchase.

b) Experience indicates that until a better measure is available an amount of 3% of the equipment component would be a reasonable share for payment by UNDP for procurement work. In the case of Government execution of projects there would only be a token payment of 0.2% on the assumption that host Governments will require some advice or assistance on the equipment procurement they do themselves.

2.4 Administration of Fellowships and Training. To be expressed as a percentage of the training component of projects.

a) The cost measurement studies provide no information on the cost of support for the training component of projects.

b) From its experience, particularly its preparation of a report on fellowships (JIU/REP/76/1) JIU believes that a reasonable rate of reimbursement for training administration (the substantive aspects of training - preparation of training programmes - are covered under technical backstopping) would be 5% of the training component. Under Government execution of projects this figure would be reduced to a token amount of 0.5% to permit advice to host Governments on their training administration. The relatively high figures are accounted for by the fact that the cost of fellowships is low - average \$3,800 - but the administrative actions are numerous and often complex.

2.5 Administration of Subcontracts

a) Cost measurement studies give no indications of the appropriate rate. UNDP which has considerable experience with the use of sub-contracting requires 4 to 7% of the sub-contract or an average of 5.5%. Other Agencies have higher costs. Most of the work is covered by the provision for technical support.

b) An amount of 1.5% of the cost of sub-contracts is proposed for their administration. Under Government execution there would be a token reimbursement of 0.2%.

2.6 Accounting and Budgeting work (excluding payroll). To be expressed as a percentage of the total project costs. The payroll function is included under Personnel Administration because the cost varies not with total project costs but with the expert component.

a) Cost measurement studies indicate that the total cost of this support work may have averaged 2.5 of 23.3% of full support costs in 1973 or 1.5 of the 14% contributed by UNDP; this appears to include payroll costs. This is confirmed by FAO's cost measurement study for 1976 which puts the amount as 1.4.

b) Information provided by some other Agencies gave the following approximate results for 1976 obtained by extrapolation.

ICAO - 1.8 of Project costs

ILO - 1.5 " " "

UPU - 1.7 " " "

WMO - 1.6 " " "

c) It is proposed that reimbursement for budgetary and accounting work for projects, excluding payroll, be at 1% of the total project costs. In case of Government execution of projects there would be no reimbursement.

2.7 Administration of the Miscellaneous Component

a) An amount of 2% of the miscellaneous component is proposed to reimburse support costs.

b) In case of Government execution of projects there would be no reimbursement.

3. Administration of Cooperation Agreements

a) This is a method of project execution proposed by JIU in its report on the "Role of Experts in Development Cooperation". In that report it is suggested that until more experience is gained support costs should be reimbursed to the United Nations Cooperating Agency at approximately 10% of the cost of Cooperation Agreements (including programme support).

b) Since technical support, programme support and support for budgeting and accounting would together provide 9%, the administration of Cooperation Agreements would require 1% of the cost of the Cooperation Agreement. Accounting work is covered by item 2.6 above. Cooperation Agreements carried out under Government execution would require no reimbursement for administrative costs.

Annex II

ILLUSTRATIONS OF APPLICATION OF NEW SYSTEM FOR SUPPORT COSTS

(See Table in IV.C for explanation of calculations)

1. This Annex for projects of different size and mix of components applies the table for Calculation of Support Costs in Section IV.C.
2. It shows for each sample project the Programme Support Costs, the Project Support Costs, their total and the total adjusted for the size of the project (see III.B).
3. Other adjustments which apply to the total of an Agency's support costs for a year would be calculated once a year. The effects of these calculations on sample Agencies are shown in Example 7.

Example 1 : Typical Mix of Project Components

Project Budget

Experts	\$ 700,000
Equipment	\$ 160,000
Training	\$ 100,000
Miscellaneous	\$ 40,000
Total	\$ 1,000,000

(a) Programme Support Costs 1.5% of \$ 1,000,000 = \$ 15,000

(b) Project Support Costs

<u>Items</u>	<u>Project</u>	<u>Applicable Percentage</u>		<u>Project Supports Costs</u>	
	<u>or</u>	<u>Trad. Ex.</u>	<u>Gov. Ex.</u>	<u>Trad. Ex.</u>	<u>Gov. Ex.</u>
	<u>Component Costs</u>				
	\$	%	%	\$	\$
Technical support	1,000,000	6.4	4.2	64,000	42,000
Recruitment	700,000	3.0	0.5	21,000	3,500
Personnel Admin.	700,000	3.0	0.1	21,000	700
Equipment	160,000	3.0	0.2	4,800	320
Training	100,000	5.0	0.5	5,000	500
Accounting	1,000,000	1.0	-	10,000	-
Miscellaneous	40,000	2.0	-	800	-

Total Unadjusted Project Support Costs:	\$ 126,600	\$ 47,020
Plus Programme Support Costs (a) above	15,000	15,000
Total Unadjusted Support Costs:	141,600	62,020
Percentage of Total Project Costs	14.2%	6.2%

(c) Adjustment to Project Support Costs for size of project

Subtract 2% of \$ 400,000 = minus \$ 8,000

(d) Total Adjusted Support Costs for this Project

(i) Traditional execution: \$ 141,600 - \$ 8,000 = \$ 133,600 or 13.4% of Project Costs;

(ii) Government execution : \$ 62,020 - \$ 8,000 = \$ 54,020 or 5.4% of Project Costs.

Example 2 : Typical Mix of Project Components

Project Budget

Experts	\$ 140,000
Equipment	\$ 52,000
Training	\$ 20,000
Miscellaneous	\$ 8,000
Total	\$ 200,000

(a) Programme Support Costs 1.5% of \$ 200,000 = \$ 3,000.

(b) Project Support Costs

<u>Items</u>	<u>Project or Component Costs</u> \$	<u>Applicable Percentage</u>		<u>Project Support Costs</u>	
		<u>Trad. Ex.</u> %	<u>Gov. Ex.</u> %	<u>Trad. Ex.</u> \$	<u>Gov. Ex.</u> \$
Technical support	200,000	6.4	4.2	12,800	8,400
Recruitment	140,000	3.0	0.5	4,200	700
Personnel Admin.	140,000	3.0	0.1	4,200	140
Equipment	32,000	3.0	0.2	960	64
Training	20,000	5.0	0.5	1,000	100
Accounting	200,000	1.0	-	2,000	-
Miscellaneous	8,000	2.0	-	160	-

Total Unadjusted Project Support Costs:	\$ 25,320	\$ 9,404
Plus Programme Support Costs (a) above	3,000	3,000
Total Unadjusted Support Costs:	28,320	12,404
Percentage of Total Project Costs	14.2%	6.2%

(c) Adjustment to Project Support Costs for size of project

Add 3% of \$ 200,000 = plus \$ 6,000

(d) Total Adjusted Support Costs for this Project

(i) Traditional execution : \$ 28,320 + \$ 6,000 = \$ 34,320 or 17.2% of Project Costs;

(ii) Government execution : \$ 12,404 + \$ 6,000 = \$ 18,404 or 9.2% of Project Costs.

Example 3 : Equipment predominates

Project Budget

Experts	\$ 50,000
Equipment	\$ 350,000
Training	\$ 40,000
Sub-contracting	\$ 50,000
Miscellaneous	\$ 10,000
Total	<u>\$ 500,000</u>

There will be no adjustment for size of project, since project falls into middle range.

(a) Programme Support Costs 1.5% of \$ 500,000 = \$ 7,500

(b) Project Support Costs

<u>Items</u>	<u>Project or Component Costs</u>	<u>Applicable Percentage</u>		<u>Project Support Costs</u>	
	\$	<u>Trad. Ex.</u> %	<u>Gov. Ex.</u> %	<u>Trad. Ex.</u> \$	<u>Gov. Ex.</u> \$
Technical support	500,000	6.4	4.2	32,000	21,000
Recruitment	50,000	3.0	0.5	1,500	250
Personnel Admin.	50,000	3.0	0.1	1,500	50
Equipment	350,000	3.0	0.2	10,500	700
Training	40,000	5.0	0.5	2,000	200
Accounting	500,000	1.0	-	5,000	-
Sub-contracting	50,000	1.5	0.2	750	100

Total Unadjusted Project Support Costs:	\$ 53,450	\$ 22,300
Plus Programme Support Costs (a) above	7,500	7,500
Total Unadjusted Support Costs:	60,950	29,800
Percentage of Total Project Costs	12.2%	6.0%

(c) Adjustment to Project Support Costs for size of project
Nil.

(d) Total Adjusted Support Costs for this Project

- (i) Traditional execution: Nil;
- (ii) Government execution : Nil.

Example 4 : Sub-contracting predominates

Project Budget

Experts	\$ 100,000
Equipment	-
Training	-
Sub-contracting	<u>\$ 1,200,000</u>
Total	\$ 1,300,000

(a) Programme Support Costs 1.5% of \$ 1,300,000 = \$ 19,500

(b) Project Support Costs

<u>Items</u>	<u>Project</u>	<u>Applicable Percentage</u>		<u>Project Support Costs</u>	
	<u>or Compo-</u> <u>nent Costs</u>	<u>Trad. Ex.</u>	<u>Gov. Ex.</u>	<u>Trad. Ex.</u>	<u>Gov. Ex.</u>
	\$	%	%	\$	\$
Technical support	1,300,000	6.4	4.2	83,200	54,600
Recruitment	100,000	3.0	0.5	3,000	500
Personnel Admin.	100,000	3.0	0.1	3,000	100
Equipment					
Training					
Accounting	1,300,000	1.0	-	13,000	-
Sub-contracting	1,200,000	1.5	0.2	18,000	2,400

Total Unadjusted Project Support Costs:	\$ 120,200	\$ 57,600
Plus Programme Support Costs (a) above	19,500	19,500
Total Unadjusted Support Costs:	139,700	77,100
Percentage of Total Project Costs	10.7%	5.9%

(c) Adjustment to Project Support Costs for size of project

Subtract: 2% of \$ 400,000 = \$ 8,000
 3% of \$ 300,000 = \$ 9,000 = \$ 17,000

(d) Total Adjusted Support Costs for this Project

(i) Traditional execution: \$ 139,700 - \$ 17,000 = \$ 122,700 or 9.4% of project costs;

(ii) Government execution: \$ 77,100 - \$ 17,000 = \$ 60,100 or 4.6% of project costs.

Example 5 : Project Under a Co-operation Agreement

Project Budget

Experts	\$ 150,000
Co-operation Agreement	\$ 1,350,000
Total	\$ 1,500,000

(a) Programme Support Costs 1.5% of \$ 1,500,000 = \$ 22,500

(b) Project Support Costs

<u>Items</u>	<u>Project or Compo- nent Costs</u> \$	<u>Applicable Percentage</u>		<u>Project Support Costs</u>	
		<u>Trad. Ex.</u> %	<u>Gov. Ex.</u> %	<u>Trad. Ex.</u> \$	<u>Gov. Ex.</u> \$
Technical support	1,500,000	6.4	4.2	96,000	63,000
Co-operation Agree- ment Admin.	1,350,000	1.0	-	13,500	-
Recruitment	150,000	3.0	0.5	4,500	750
Personnel Admin.	150,000	3.0	0.1	4,500	150
Accounting	1,500,000	1.0	-	15,000	-

Total Unadjusted Project Support Costs:	\$ 133,500	\$ 63,900
Plus Programme Support Costs (a) above	22,500	22,500
Total Unadjusted Support Costs:	156,000	86,400
Percentage of Total Project Costs	10.4%	5.8%

(c) Adjustment to Project Support Costs for size of project

Subtract 2% of \$ 400,000 = minus \$ 8,000 = \$ 23,000
Subtract 3% of \$ 500,000 = minus \$ 15,000 = \$ 23,000

(d) Total Adjusted Support Costs for this Project

- (i) Traditional execution: \$ 156,000 - \$ 23,000 = \$ 133,000 or 8.9% of project costs;
(ii) Government execution : \$ 86,400 - \$ 23,000 = \$ 63,400 or 4.2% of project costs.

Example 6 : Very Small Project

Project Budget

Experts	\$ 40,000
Training	\$ 20,000
Total	\$ 60,000

(a) Programme Support Costs 1.5% of \$ 60,000 = \$ 900

(b) Project Support Costs

<u>Items</u>	<u>Project or Compo- nent Costs</u> \$	<u>Applicable Percentage</u>		<u>Project Support Costs</u>	
		<u>Trad. Ex.</u> %	<u>Gov. Ex.</u> %	<u>Trad. Ex.</u> \$	<u>Gov. Ex.</u> \$
Technical support	60,000	6.4	4.2	3,840	2,520
Recruitment	40,000	3.0	0.5	1,200	200
Personnel Admin.	40,000	3.0	0.1	1,200	40
Equipment					
Training	20,000	5.0	0.5	1,000	100
Accounting	60,000	1.0	-	600	-
Miscellaneous					

Total Unadjusted Project Support Costs:	\$ 7,840	\$ 2,860
Plus Programme Support Costs (a) above	900	900
Total Unadjusted Support Costs:	8,740	3,760
Percentage of Total Project Costs	14.6%	6.3%

(c) Adjustment to Project Support Costs for size of project

Add 3% of \$ 340,000 = plus \$ 10,200 and then reduce to maximum = plus \$ 7,840 under traditional execution and \$ 2,860 under Government execution.

(d) Total Adjusted Support Costs for this Project

- (i) Traditional execution: \$ 8,740 + \$ 7,840 = \$ 16,580 or 27.6% of project costs;
- (ii) Government execution: \$ 3,760 + \$ 2,860 = \$ 6,620 or 11.0% of project costs.

Example 7: Adjustment to Total Support Costs of Sample Agencies (to be made once each year)

Agency A:

Total Project Costs: \$ 100,000,000; 27% of total programme
Class of post adjustment at Agency Headquarters: 2.

Agency B:

Total Project Costs: \$ 60,000,000; 16% of total programme
Class of Post Adjustment at Agency Headquarters: 7.

Agency C:

Total Project Costs: \$ 30,000,000; 8% of total programme
Class of Post Adjustment at Agency Headquarters: 19.

Agency D:

Total Project Costs: \$ 10,000,000; 2.7% of total programme
Class of Post Adjustment at Agency Headquarters: 11.

Agency E:

Total Project Costs: \$ 5,000,000; 1.3% of total programme
Class of Post Adjustment at Agency Headquarters: 4.

Agency F:

Total Project Costs: \$ 1,000,000; 0.03% of total programme
Class of Post Adjustment at Agency Headquarters: 19.

1. Adjustment for Economies of Scale (see II.A for explanation of method)

<u>Agency</u>	<u>% of Project Costs Above or Below Average (6%)</u>	<u>Adjustment to Agencies' Total Support Costs</u>		
A	21.0% above	21% x 0.15	of \$ 14,000,000 ^{1/}	= minus \$ 441,000
B	10.0% above	10% x 0.12	of \$ 8,400,000 ^{1/}	= minus \$ 126,000
C	2.0% above	2% x 0.15	of \$ 4,200,000 ^{1/}	= minus \$ 12,600
D	3.3% below	3.3% x 3	of \$ 1,400,000 ^{1/}	= plus \$ 138,600
E	4.7% below	4.7% x 3	of \$ 700,000 ^{1/}	= plus \$ 98,700
F	5.7% below	5.7% x 3	of \$ 140,000 ^{1/}	= plus \$ 23,940.

^{1/} Support costs before adjustment, i.e. 14 per cent of project costs.

2. Adjustment for Variations in Cost at Agency Headquarters (see III.D for explanation of method)

<u>Agency</u>	<u>Classes of Post Adjustment Above or Below Weighted Average (8)</u>	<u>Adjustment to Agencies' Total Support Costs</u>
A	6 below	6 x 1.5% of \$ 14,000,000 ^{1/} = minus \$ 1,260,000
B	1 below	1 x 1.5% of \$ 8,400,000 ^{1/} = minus \$ 117,600
C	11 above	11 x 1.5% of \$ 4,200,000 ^{1/} = plus \$ 693,000
D	3 above	3 x 1.5% of \$ 1,400,000 ^{1/} = plus \$ 63,000
E	4 below	4 x 1.5% of \$ 700,000 ^{1/} = minus \$ 42,000
F	11 above	11 x 1.5% of \$ 140,000 ^{1/} = plus \$ 23,100

3. Adjustment for stability of support costs

The total support costs to be paid by UNDP to an Agency would not decrease by more than 10 per cent from one of the Agencies' budgetary periods (not exceeding two years) to the next.

^{1/} Support costs before adjustment, i.e. 14 per cent of project costs.