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## AGENCY SUPPORT COSTS

### Note by the Administrator

Attached is a note of the Joint Inspection Unit (JIU) on agency support costs (JIU Note 78-3). The note represents the views of the JIU on the report of the Administrator (DP/WGOC/25) as requested by the Intergovernmental Working Group on Support Costs.

JIU/NOTE/78/3

AGENCY SUPPORT COSTS

Views of the Joint Inspection Unit (JIU) on the Report of the Administrator  
(DP/WGOC/25)

1. The Intergovernmental Working Group on Support Costs of the Governing Council of UNDP, in its decision of 9 June 1978, 1/ invited the JIU to submit to it comments and observations on the recommendations on support costs prepared by the Administrator. The Working Group adopted its decision after having received, among other documents, a preliminary Note by the JIU on a new system for Agency support costs. 2/ The JIU received the Report of the Administrator on 7 December 1978. 3/
2. The Report of the Administrator indicates that the Agencies were unable to agree on some of the most important features identified by the Working Group for a new formula for the reimbursement of support costs. Therefore, the Administrator was only able to make modest proposals. In the opinion of the JIU, the Administrator's recommendations fall short of meeting the considerations contained in the decision of the Working Group of 9 June 1978.
3. In this document, the substantive elements of the decision of the Working Group are compared with the proposals contained in the Report of the Administrator. The document concludes with the views of the JIU on the formula suggested by the Administrator.
- A. The New Formula for the Reimbursement of Support Costs should be Based as Closely as Possible on Data on the Costs Incurred (operative para. 3 of the decision of the Working Group)
4. The Report of the Administrator, after tracing the history of cost measurement studies, 4/ concludes that further elaborate studies will not be undertaken. Instead, a "pragmatic approach" based on "readily available data" is suggested. It would appear from the Administrator's report 5/ that it was not possible to obtain reliable readily available data (see also paras. 14-16 below).

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- 1/ E/1978/53/Rev.1, Annex III, para. 61.
  - 2/ DP/WGOC/21.
  - 3/ DP/WGOC/25.
  - 4/ DP/WGOC/25, paras. 21-25.
  - 5/ DP/WGOC/25, paras. 29 and 38.

JIU/NOTE/78/3 (cont'd.)

5. The JIU agrees that cost measurement studies as carried out in the past did not provide sufficiently significant or reliable data. The Agencies are unable to identify the average cost of recruiting and administering an expert or administering a fellowship, and the cost estimates which are provided (equipment) seem highly improbable (see paras. 14-16 below). 6/

6. The JIU believes that each organization should introduce cost measurement techniques, using sampling, so that the support costs by project component can be identified. This could be facilitated by including elements of cost measurement in the accounting systems of the organizations. In addition to serving for the calculation of support costs, this could provide data for the programme budgeting process.

B. Economies of Scale (operative para. 3(a)) of the decision of the Working Group and paras. 10-12 and 32-37 of the Administrator's report).

7. After recognizing the economies of scale do occur but that it is difficult to determine the point at which they, or the reverse, emerge, the Administrator makes two proposals.

8. The first concerns the Agencies with smaller programmes for which increases in support costs reimbursement would be determined through negotiations between the Administrator and each Agency based on actual incurred costs. The second would result in small reductions in support costs for Agencies whose programmes exceed \$50 million, this figure being determined on a pragmatic basis.

9. The JIU feels the concept of economies of scale should not be considered for each Agency in isolation and that the basis for determining such economies (or increases for small programmes) should be the relative costs for each Agency in comparison with the others. It appears to be a political judgement of Governments that over-all support costs reimbursed by UNDP are finite within a small range. Economies of scale should permit a more equitable distribution among Agencies of the finite support costs reimbursements. It was for this reason that the JIU had suggested that Agencies should have their support costs reimbursement increased or reduced depending on whether their programmes were below or above the average size and that the increases would equal the decreases. 7/

10. The Administrator's proposal, based in part on individual negotiations with Agencies does not compensate increases by decreases. It could well result in an over-all increase in support costs reimbursement. Therefore, the JIU suggests that if the Administrator's proposal is adopted it should be accompanied by a rule that increases granted to Agencies with smaller programmes should not exceed the decreases obtained by applying the Administrator's formula to Agencies with larger programmes.

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6/ See in this connexion paras. 43-51 of DP/WGOC/21.

7/ DP/WGOC/21, paras. 14-17.

11. The JIU believes that the negotiation of increases by the Administrator with Agencies with smaller programmes should not be a permanent feature of a new system. It is a time-consuming process if done correctly and the current imperfect state of cost data does not provide a solid basis for negotiation.

C. Nature and Component Mix of Projects (operative para. 3(b) of the decision of the Working Group and paras. 13 and 38-42 of the Administrator's report)

12. The Agencies felt that this question should not be related to individual projects. However, an exception is proposed under which there would be a flat rate of reimbursement of 7 per cent for projects comprising 75 per cent or more of equipment and/or subcontracts.

13. The reductions in support costs reimbursement that can be achieved if the Administrator's proposal is retained will probably be small since not many projects have equipment and/or subcontracts totalling 75 per cent of project costs. The JIU feels that it would be preferable to introduce a reimbursement somewhat lower than 14 per cent for the entire equipment and subcontracting components.

14. The extreme and unexplained variations in average costs reported by Agencies are disquieting and illustrate the lack of reliable cost data. The three Agencies with the largest programmes reported costs for equipment procurement which ranged from 3.3 per cent to 10 per cent of the cost of equipment. 8/ It appears evident that an effort should be made to explain the extreme differences and that Agencies with high percentages should attempt to model their procedures on those with small percentages.

15. One possible, but only partial, explanation of the extreme differences mentioned above is the wide variation in costs between the headquarters of Agencies located at different duty stations. The JIU had suggested a formula which would partially compensate for these varying costs 9/ but the Agencies decided not to take account of this in the formula proposed by the Administrator and the Working Group did not give it high priority.

16. Although no cost figures are given for components other than equipment in the Administrator's report, it is likely that similar extreme variations in support costs exist for all components. 10/ An examination and understanding of these differences could lead to increased efficiency and lower costs if Agencies emulated the procedures of the least costly Agency. But to benefit fully from such an exercise it would be necessary to have reliable cost data for each component.

D. Method of Execution (operative para. 3(c) of the decision of the Working Group and paras. 14 and 43 of the Administrator's report)

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8/ DP/WGOC/25, para. 38.

9/ DP/WGOC/21, paras. 27-31.

10/ See in this connexion Annex I to DP/WGOC/21.

JIU/NOTE/78/3 (cont'd.)

17. The Administrator proposes that, in the case of Government-executed projects, Agencies be reimbursed support costs only in respect of specific inputs provided by them. Technical advice would be charged to project budgets only when it involved clearly identified costs.

18. The JIU had proposed a larger reimbursement of support costs in cases of Government execution 11/ because it felt that it was important that Agencies continue to be closely associated with the technical aspects of such projects. However, the Administrator's proposal seems reasonable.

19. It is important to have a clear definition of the support costs which can be legitimately included in project budgets. Should the cost of travel of a staff member from an Agency's headquarters to advise on the preparation of a project document or on an aspect of project implementation be charged to support costs or the project budget? In the case of Government-executed projects, the Administrator suggests that such costs be charged to the project budget. For other projects, the JIU believes that such expenses should be part of support costs.

E. Variations in Cost levels at Headquarters of Agencies (operative para. 4 of the decision of the Working Group and paras. 15 and <sup>44</sup> of the Administrator's report)

20. The Working Group considered that this feature should be taken into account "only if a simple way could be found". The original JIU proposal 12/ was similar to its proposal on economies of scale, i.e. that plus adjustments should equal minus adjustments to avoid increasing over-all support costs reimbursement. The Administrator's proposal would provide only plus adjustments on the basis of ad hoc arrangements and would thus increase over-all support costs reimbursement by an unspecified amount.

21. The JIU believes that this is a major problem and that a solution which does not increase over-all support costs reimbursement should be sought. The original JIU proposal on this question 12/ met with little support. Perhaps if it were combined with transitional measures such as those indicated by the Administrator for economies of scale 13/ it could be reconsidered. In any event the JIU feels that it would be difficult to justify increases in support costs reimbursement for Agencies at high cost duty stations without making corresponding reductions in the support costs reimbursement of other Agencies.

F. Measure of Stabilization (operative para. 4 of the decision of the Working Group and para. 16 of the Administrator's report)

22. The Administrator concludes that this feature does not have high priority. The JIU agrees. When it was proposed by the JIU it was part of an interrelated package of measures. 14/

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11/ DP/WGOC/21, paras. 24-26 and 41.

12/ DP/WGOC/21, paras. 27-31.

13/ DP/WGOC/25, Annex, para. 6.

14/ DP/WGOC/21, paras. 32 and 33.

JIU/NOTE/78/3 (cont'd.)

G. Project Basis for the Calculation of Support Costs (operative para. 4 of the decision of the Working Group and paras. 17 and 18 of the Administrator's report)

23. After noting that a project basis has been adopted for projects with large equipment and/or subcontracting components, the Administrator presents arguments against extending this approach to other projects. The JIU notes that in effect the Administrator is also proposing a project basis for the calculation of support costs for Government-executed projects. 15/

24. Just as in the two instances mentioned above a project basis was found to be feasible, the JIU feels that it is also feasible and indeed beneficial for all projects. It could help to generate and corroborate cost data. However, since the Working Group did not give this feature high priority the Administrator's conclusion could be considered to be acceptable for the time being. But the lack of reliable cost data is the major stumbling block in arriving at a solution for support costs and even more important cost data is essential for good management (see paras. 14 to 16 above) and even without the project approach, cost data should still be obtained and compared. The JIU does not agree that cost measurement systems need be as costly and complex as indicated by the Administrator, particularly in para. 18(c) of his report.

H. Inclusion of Support Costs in Project Budgets (operative para. 6 of the decision of the Working Group and paras. 19 and 20 of the Administrator's report)

25. All Agencies were opposed to this proposal. 16/ However, the JIU believes that for the reasons given in DP/WGOC/21, para. 42, and so that there is full disclosure to host Governments on the cost of their projects, this feature should be considered at some time in the future by the Governing Council.

I. View of the JIU on the Modified Formula Proposed by the Administrator

26. The first two elements listed in para. 31(a) and (b) of the Administrator's report should be considered as part of a package to which must be added the ad hoc arrangements for variations in cost levels at headquarters of Agencies described in para. 44 of the Administrator's report. The plus adjustments accorded should not exceed in amount the minus adjustments.

27. The provision in para. 31(c) under which a lower rate of support costs reimbursement would be applied to projects which comprise primarily equipment and/or subcontracts is a step in the right direction, but because of the way in which the formula is constructed it is not likely to make any significant change in the amounts of support costs reimbursed by UNDP for the reasons given in para. 13 above.

28. The last element concerning Government-executed projects seems reasonable, provided that the issue raised in para. 19 above is not neglected.

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15/ DP/WGOC/25, paras. 14 and 43

16/ DP/WGOC/25, para. 42.

JIU/NOTE/78/3 (cont'd.)

29. The JIU feels, for the reasons stated in this document, that the Administrator's formula falls short of meeting the considerations contained in the decision of the Working Group. The JIU recognizes that the formula represents a token departure from the traditional across-the-board 14 per cent reimbursement, but it does not believe that this formula can be considered to be the durable solution to the calculation of Support Costs sought by the Governing Council.

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